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ADVANCED MANAGEMENT

Quarterly Journal • Society for Advancement of Management

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RALPH L. MASON

When Labor Cooperates With Management
ERNEST DALE

Efficient Planning for Budgeting
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The Supervisor and His Wife Study Human Relations
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Decentralizing Personnel Management
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Comment

AN extended visit to the TVA under the helpful guidance of its able Director, Gordon R. Clapp, a Commencement visit to the University of Florida, a week's seminar in North Carolina on higher education in the South—these recent personal experiences of mine combine with a reading of *New Industry Comes to the South* (National Planning Association, 1949) to evoke these notes on the problem of factory location in American economic life.

Deliberate, prior study leading to scientific plant location is a relatively recent growth. It has causes not confined to imputed or actual favorable factors in the South. There are causes fundamental to the extension of scientific planning in all phases of management, which include location problems. And as such they are prompted by considerations of basic importance.

The crucial points to be reckoned with as new plant location is considered are, however, not always the ones that rule-of-thumb used to suggest. Tax exemptions, cheap labor, lax labor laws, impoverished local communities—these have too often been the unscientific determinants of moves from "ills we have to others that we know not of."

The point of this Comment is that all the plausible arguments for new locations may well add up to being invalid and precarious. Experience has been general that there are substantial hidden costs concealed with respect to cheap labor in those poor towns and villages that are unserviced by all the amenities that make local life stable and felicitous. Tax exemption does not usually last indefinitely. The interdependence of favorable local community sentiment plus adequate public services with the likelihood of being able to recruit an intelligent and efficient staff of manual workers is soon found to be a close one. Modern management, especially in multiple-plant corporations, is finding it prudent to have high-level, civic awareness by local management representatives about the local areas in which they operate.

In the long run there is no easy avoidance of labor unions, of Negro labor, of good job training programs, of cooperative working relations with local communities in matters of housing, health, recreation and education. Geographic shifts or selections of location for the wrong reasons are only short-run and deceptive appeasements for managements that have not been willing to do as careful human accounting as they do dollar budgeting.

There are basic location factors of economy, as the NPA study carefully shows. They relate to transportation of raw materials and of finished product. They are calculable on a slide-rule basis. But it is now clear that the other and imponderable factors can constitute a headache to those who have failed to anticipate them or who underestimate their true cost.

The fact is that cost-of-living differentials on a regional basis, although still real, seem to be lessening. The fact is that labor organization is becoming nationwide. The fact is that protective labor legislation in the so-called backward states can be counted on by public pressures to level up to the more advanced states in the fairly immediate future.

Plant location is and will become a more important factor in economical operation. But it has a calculus of its own that does not include labor exploitation, direct or indirect. Differentials of manufacturing advantage based on exploitation are built upon quicksand, and the South has suffered from some of its new-found industrial friends whose forecasts of costing economy have gone awry.

I repeat, I have no other purpose here than to offer a reminder that there are valid reasons and there are phony and unethical reasons for plant relocation and for the selection of brand-new plant sites.

The other vital phase of this location issue that, finally, will have to be a matter for top reckoning by owners will be their fresh understanding of the new forces of local, small-community self-consciousness that are now generating up and down this country. This rapidly growing resurgence of local, small-town consciousness, pride and concern for humane living along with livelihood will put to the test the underlying good faith of incoming corporations, which may not know that the sprawling unconcern of New York, Chicago or Detroit is not typical of the way many revitalized, small communities are now taking stock of the kind of industrial growth they will be willing to encourage. The numerous articles and books on the "rejuvenation of local life" that have appeared in the last five years are the tangible reflection of this fact. They are fivefold greater in volume than ten years ago, and the end is not yet.

ORDWAY TEAD

Questions covering the basic desires that are present in every employee's mind were asked of three employee groups by an impartial consultant. The results of these frank answers showed how much workers actually knew about their company, its policies and its plans. Getting opinions of employees can help an organization do a better job in human relations.

Experiences With Employee Opinion Surveys

By RALPH L. MASON

THE decision to ask our employees their opinions on various matters connected with their jobs was based partly on the results obtained from a similar technique with customers of Esso products. Our marketing people had gotten good sales ideas and constructive suggestions through the use of opinion surveys. It was felt that we could also profit from asking our employees various questions about their jobs that could guide us in our employee relations program. After considerable discussion of how we should proceed, it was agreed by all concerned that an impartial consultant could do an objective job better than we could. We called in a well known authority in the field of opinion surveys and asked him to undertake the job.

Our first employee opinion survey was made in 1945 at the Baton Rouge Refinery of one of our affiliates, the Standard Oil Company of New Jersey. Before actually submitting the questionnaires to the employees, the consultant and representatives of our management got together and worked up what we thought would be good questions to cover the four basic desires that, it has been generally agreed, are present in every employee's mind: (1) Does the employee feel economically secure? (2) Does he feel that he has a chance to better himself? (3) Is he satisfied that he is treated like an individual rather than a machine? (4) Does he feel that his job is important and is making a contribution to the community or to the nation?

The first questionnaire was designed to be answered by employees generally. The succeeding surveys were made separately of three employee groups, namely, the supervisors, the professional or technical people, and the other employees. We found from the first survey that there were differences of opinion that were conditioned by the types of work or responsibilities of the individuals. After the questions had been looked over by all concerned, we called in representatives of the employees' unions and told them what we were planning to do, and why. As could be expected, their first reaction was one of concern. They wondered if this was a means whereby the company was trying to cut the ground out from under them, but after a complete discussion they finally agreed, with the understanding that they would be given an over-all summary of the results. How the union representatives finally were convinced is best told by Stuart Chase, who later visited our plants and wrote a story for the company's publication, *The Lamp,* entitled "A Generation of Industrial Peace." He wrote:

> The consultant "had a good story about selling the idea of the poll to one of the unions. The men were silent for a while, until finally an official spoke up. 'I'm for it,' he said. 'It's a good idea and here's why. I tell the management what the workers want. They want this and they want that, and I bang the table. So Bill here (the superintendent) he says no, that's not what the workers want, they want that and they want this. And *he* bangs the table. But neither of us knows a damn thing about what the workers *really* want. I'm for [the consultant] finding out.'"

The supervisors in the plant were told about the survey and why it was being made. We wanted to dispel any idea that we were trying to undermine their au-

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thority. They were invited to participate. In later surveys, the supervisors were also polled separately on questions of particular interest to them.

The employees who were asked to give their opinions were selected at random from payroll lists. The plant management merely turned the lists over to the consultant and his assistants and they made the selections at random. Those designated were then requested to assemble during regular working hours and the entire project was explained by a member of management. He pointed out that we had asked an outside agency to conduct the survey in order to preserve anonymity. He then turned the meeting over to the consultant and left the room.

Selling the Employees

The consultant had to sell the employees on the value of the survey to them as well as its worth to the company. He told us later that he realized that people generally are suspicious of such undertakings and that our employees were no exception. He explained to them in detail just how the completed questionnaires would be handled and the results tabulated and spent some time assuring them of the complete anonymity with which the whole project would be handled. At one point he said:

> "Just in case you think the company is going to check fingerprints on these pieces of paper or anything like that, forget about it. But anyway let's swap the pieces of paper around several times so even if they wanted to they couldn't. And don't sign your name when you've finished."

In various other ways he sold the idea thoroughly that this was to be an objective survey, that it would give the workers a chance to sound off on any gripes which they might have as well as give the company a pat on the back for what they thought was being done well. In other words, we were being honest with them and we wanted them to be honest with us.

Some thirty-odd items were listed in the questionnaires, and the results were compiled by the consultant for analysis. It would be interesting to list all of the questions and the replies, but that is not the purpose of this paper. Questions have to be designed to fit the particular situation, although it can be said that many questions that cover the four basic ideas previously mentioned could apply almost anywhere. However, for purposes of illustration, we will later cite several examples so that the reader can see how an opinion survey can be used.

After compilation and analysis of the results by the consultant's organization, our own people went over the questions and answers. Charts and slides were prepared for discussion of the various findings. They were shown to top management and other supervisors. A summary of the findings was given to the union as promised.

Faulty Situations Revealed

The results of the first survey were highly informative. It gave us leads to clear up some faulty situations that we thought had been in pretty good shape. The survey also confirmed some things we already knew.

An employee opinion survey can be a means of finding out how much the workers know about their company, its policies and plans. Often lack of information is at the root of basic personnel difficulties. Give the average man a chance to consider two sides of the question and he will generally come up with an honest answer. The only way in which you can find out whether he has the information on which to base an opinion is to see how much information he has. Our consultant has this to say on that particular phase of the subject: "All of us who do public opinion research are daily impressed with the sound judgments which the common man passes on all those things about which he has sufficient information—and it is easy to find out when he has insufficient information."

The above is particularly true in the case of supervisors who are expected to be part of the management and help top management thinking. The top management may feel that it has given its foremen plenty of latitude in responsibility towards personnel, such as hiring, firing and promotion, but the foremen themselves may not be so sure that they have that latitude. One way you can find out is by asking them.

In planning and developing training programs for supervisors, the training department in a plant frequently works in the dark either because its management doesn't fully know the training needs or works up some fancy-sounding courses that look good. One way of making sure the prospective trainees will get what they want is to ask them what they would like to know. If the training department can only handle a certain number of subjects in an allotted time, it would obviously be important to select those subjects that are considered most important by the men who are to participate.

When undertaking an employee opinion survey we feel that it can only be done with complete frankness and that all parties concerned should know about it.

If there is a union, it should be consulted and the questions checked with them to make sure that there is no disagreement as to the type of question asked. In one of our surveys we almost ran into a peck of trouble because two questions dealt with what the union construed to be bargainable issues (vacations and seniority). It was quite obvious that unless we were willing to drop the questions we would not get their cooperation. In another plant, on the other hand, the same questions were asked and the union there raised no objection. We also think that, if employees are represented by a bargaining agency, the union representatives should be given an over-all picture of the results. This should dispel the idea that the management is trying to contact the workers directly without consulting the union.

Obviously the questions must be so constructed that their meanings are clear. They must not be "loaded" just to get favorable results. There should be opportunity for employees to express themselves freely. Otherwise the benefits of constructive criticism cannot be realized. A company may have liberal and enlightened ideas that the employees may not be fully aware of because of lack of information or faulty transmission. From a sound business point of view, top management has to conduct its affairs carefully and be fully cognizant of its obligations. The average employee knows this. He has to look to the management to so run the business that his job is secure. But he gets restless and confused when he doesn't understand something, no matter how good the intentions. These written answers to a question we asked about pension plans clearly illustrate in everyday language how a company's good intentions can sometimes be lost when too formal-sounding phrases are used to describe a plan:

"Make it more understandable. It takes a lawyer to interpret it at present."

"It is okay as it is."

"I don't know anything about the plan and signed up anyway so the Employee Relations Department would not bother me when I was busy."

What could be more convincing to our management than these simply worded answers to show the need for a realistic educational program for our employees so that they can better appreciate the benefits that come with a job in our company?

Follow-Through Essential

There is no point in undertaking an employee opinion survey unless the management is thoroughly sold on it and intends to follow through. If you get criticisms and get sore about it, there is no point in even starting. If you are willing to stand up and be shot at, you may learn a lot about your personnel situations that you didn't know before. It has seemed to us that employees, once they are convinced that the company is acting in good faith, appreciate the opportunity of getting across some ideas to management that are difficult to express through any other medium. This is particularly true in a large operation. In a smaller plant, if the supervisors are really working with the employees under them constantly and with an open mind, there may not be any need to engage in opinion surveys.

If management decides to undertake an employee opinion survey, we think that a third party can do the job best. There are a variety of ways in which objectivity can be obtained. In addition to using the services of well known experts in the field, it is also possible to arrange with colleges or universities to undertake such projects. There are public and semi-public organizations that can be used. In a small town, it is conceivable that a leading citizen who is well known and has the respect of all of the townspeople could do the job. The results could then be tabulated statistically. In any case, the employees must feel confident that their opinions will be honestly received and that the employer could not possibly identify the respondents, no matter how much they trust the company or how many assurances they are given.

It is a well known axiom that people shouldn't wait to get sick before going to see the doctor. Modern-day practice calls for people to have periodic check-ups. Perhaps the time has arrived for businesses to have similar check-ups. An employee opinion survey could be a good way to check up on what the management may think are its good policies before some outward manifestation indicates otherwise. From the experience we have gained, we feel that getting the opinions of our employees has helped us to do a better job in the field of human relations. We intend to continue the use of opinion surveys as time goes on because we are convinced that employee opinions have been useful in building and maintaining better understanding between management and workers.

Labor cooperation with management has three objectives—economic (increasing income to be distributed through unit cost reduction), technical (disseminating information and putting it to use), and social (bettering industrial relations). The areas of cooperation are those in which there are mutual interests and small chance of conflict. In varying degrees, a majority of labor and management representatives surveyed said they were pleased with the results of cooperation and looked forward to continuing progress.

When Labor Cooperates With Management

By ERNEST DALE

The following article is a general appraisal of recent attempts integrating labor with management in a common effort to increase productivity. It is based on an address given by the author to the New York Chapter of the Society for Advancement of Management on April 28, 1949, and his book Greater Productivity Through Labor-Management Cooperation, *published recently by the American Management Association.*

Research began with an examination of the purpose and nature of cooperation. Then a detailed questionnaire was sent to almost 1,000 companies in manufacturing industries believed to have some type of labor-management cooperation. Most of these names were obtained from the files of the War Production Board Headquarters in Washington, D. C., but only those which had indicated, by letter or by oral report to visiting representatives of the WPB, that they had actively functioning cooperation plans were included. The remainder of the names were selected from AMA files, or suggested by managements or unions.

Two hundred and sixty-three companies replied, through a wide variety of members of management above the rank of foreman, mostly executives in charge of production and, to a lesser extent, personnel managers. Personal visits were made to forty of these companies to interview managements, unions and employees, to attend cooperation meetings, and to study the records. Several hundred production and personnel men and union officials at all levels of responsibility—usually those with long experience—were interviewed. The literature on cooperation was searched diligently.

Material so gathered was analyzed and written up for submission to a small group of authorities—people who have been studying or practicing cooperation—and their comments and suggestions were solicited. Many of the individual sections of the manuscripts were checked by experts in the particular field treated. Relevant portions of the manuscript were submitted to companies and unions about which statements of fact were made. In this way, a number of errors were eliminated. The final report embodies the results of all this work.

—Author's note.

* * *

COOPERATION means different things to different people. It is therefore necessary to define it before discussing it. Cooperation takes place on matters of joint interest to labor and management. "Matters of joint interest" outside the area of collective bargaining are defined in this report as methods of increasing "productivity," broadly interpreted.

Since cooperation is concerned with *increasing* the income to be distributed, it may, in a sense, be said to precede collective bargaining, which is more concerned

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with the *distribution* of the income. In cooperation, also, management and labor seek a common objective in an area of common interest. In bargaining, while there is a common interest, the most obvious common purpose is the achievement of an agreement.

Objectives of Cooperation

Labor cooperation with management has three major objectives.

The first is economic. Cooperation, resulting in unit cost reduction, is designed to raise the company's revenue-paying capacity, eliminating quarrel over the distribution of what exists. It is based on the realization that a shift of distribution may often be at the expense of another labor group and may not increase labor's total income very much, while it may impair employment and progress. In this vein an international union president said: "Unions must go beyond collective bargaining and do all in their power to make their employer a successful business man. Our free enterprise system cannot continue with unsuccessful and profitless business. It is the obligation of unions at all times to promote greater productivity and efficiency in production."

The second objective of cooperation is technical—a means of disseminating information and utilizing it. For management it is a way of pointing to production needs and acquainting labor of its position. For labor it is an instrument for communication upward. Surprisingly few managements are aware of their lack of communication with the rank and file. This lack was vividly recalled for me by the president of a union in a large company, famous for the quality of its industrial relations. After he and his associates had poured out constructive production suggestions for two hours he concluded the meeting by shouting: "When you get back to New York, tell the board of directors no one hears our ideas. Tell them not to talk to us continuously. Tell them to send someone to listen to us."

The third objective is social. Management sees in cooperation an instrument of varying potentialities for better industrial relations. To some cooperation is a panacea, an answer to all problems. As one executive wrote, "If it's a new way to reduce strikes, please send me the how-to as soon as possible." To some cooperation is a logical outcome of management's trustee function —"It's good for the employees." To some it is a device to undermine the union. Some say "It'll make our people loyal to the company again." Some just "give it a whirl to see what will come of it."

Most managements, however, tried cooperation as one way to better industrial relations. They know that higher wages alone have not brought peace. They realize that a man spends half his available time on the job and that he is likely to get satisfaction only when he is away from his job. Cooperation may be a means of bringing satisfaction to the job.

For labor these social objectives stem partly from non-economic aspirations—the desire for prestige, participation, knowledge, integrity, and self-development that may be obtained in the process of cooperation. By political analogy it has been suggested that these objectives are not easily satisfied except through some machinery of self-government. The desire to take an active part in affairs is usually confined to a minority. But the desire to be a member of something, with status and recognition, is surely much deeper and more widespread. Even employees to whom committees are a form of slow torture like to cast an occasional vote or to feel that, if deeply stirred, they have the right to do so. And there is a general desire not to be pushed around, not to be driven, not to be exploited.

In part, the movement toward cooperation appears to be stimulated by broad, general forces. The reduction of unilateral control has been an integral part of the American political scene over the last hundred years. More recently we have been witnessing a broadening in the distribution of proprietary rights. This increased power of control on the part of labor can be a force of great good or ill. The problem is to harness it so as to increase efficiency and strengthen democracy. Otherwise you may get a course of action such as one C.I.O. leader suggested in the Far West: "We do not, by any means, indict all employers in the industry. Many have a good constructive view, but the employers' association is dominated today by the most selfish, reactionary and profit-minded elements in the industry. That's why we are concentrating right now on doing a political job in '48 rather than barking up a stone wall with the idea of union-management cooperation to increase productivity."

The Nature of Cooperative Organization

There are three major facts about the nature of cooperative organization. First, the structure of cooperation is diverse but, broadly speaking, two major types of organization can be distinguished—departmental and plantwide committees. Departmental cooperation was found in 145 out of the 228 companies reporting some type of cooperation. Participants are foremen, often higher supervisory personnel and rank-and-file subordinates, less frequently union shop stewards. The 126

Table 1.

	Number of Times Mentioned		
	Departmental Cooperation	*Plantwide Cooperation*	*Total*
Accident prevention	87	76	163
Elimination of waste and defective work	106	41	147
Furthering labor understanding of policies	97	48	145
Regular attendance	84	31	115
Employee insurance plans	68	42	110
Quality control	84	21	105
Job evaluation	52	50	102
Physical working conditions	65	36	101
Lateness	80	20	100
Maintenance of tools, fixtures, etc.	74	24	98
Employee health	71	26	97
Methods improvement	67	29	96
Discipline control	65	23	88
Training, apprenticeship, and induction programs	55	30	85
Labor turnover	50	19	69
Setting output standards	42	26	68
Incentive systems	42	25	67
Production planning	45	14	59
Promotional programs	39	14	53
Utilization of machinery	43	8	51
Employment stabilization	37	12	49
Technological changes	37	11	48

plantwide committees consist of higher members of management and, on the employee side, mostly of union representatives.

Second, the areas of cooperation are chiefly those in which the possibility of conflict is small. Employee-management cooperation tends to function best in those fields in which a substantial mutuality of interest already exists. Here cooperation furthers the attainment of goals that are already largely mutual. They are fields in which both labor and management have had experience and can offer ideas and practical suggestions. That is also why the areas of cooperation may be rather limited in scope and have most frequently included such activities as those shown in Table 1.

Wages, hours and other matters subject to frequent disagreement are not generally dealt with by cooperative committees.

Finally, the degree of cooperation varies inversely with its frequency of appearance; that is, the greater labor's share in participation, the less often one finds it. Four degrees of cooperation may be distinguished, each shading imperceptibly into the other: (1) informational cooperation in which either side explains the nature and reasons for a change of a policy or procedure, e.g. information on job classification, or joint fact finding; (2) advisory cooperation, in which labor is given an opportunity to criticize, e.g. consultative supervision on job classification; (3) constructive cooperation, in which labor participates in working out a change by making suggestions, e.g. labor sets up with management a plan of job classification, management having the final voice; and (4) joint determination, under which labor has equal rights with management in making the final decisions, as appears to have been the case in the recent steel industry wage inequity elimination study. Cooperation takes place in advance of the final change and is therefore distinguished from the grievance procedure in which requests are usually made by labor after a change has been made by management.

The Present Status of Cooperation

Some of the principal observations on the current status of cooperation may be summed up as follows.

1. *Labor-management cooperation seems to be much more prevalent than it was a decade ago.* Altogether, 228 companies reported that they had engaged in some type of labor cooperation at some time during the past five years. Of these programs, 201 are still active.

2. *Cooperation's capacity to survive is considerable.* More than one-third of the current labor-management set-ups have existed from two to five years; twenty percent have lasted more than ten years; another twenty percent from five to ten years. The critical period is between the second and fifth year, when two-thirds of all failures occurred. Few failures took place after cooperation had survived for more than five years.

3. *Where cooperation has been successful in unionized companies, it appears to have narrowed the field of disagreement between management and union.* For example, companies report that where union members, either as individuals or as representatives of the union, participate in safety committee work, there is less pressure on the union to fight disciplinary action for infraction of safety rules. Similarly, a number of firms report less friction over standards of output as a result of their cooperative plans. Some companies that have instituted cooperation in training programs believe it has led to less rigid enforcement of seniority practices and hence to less disagreement over promotions.

4. *Many companies, both unionized and non-unionized, claim that cooperation has resulted in improved employee attitude.* Companies that liked cooperation said such things as: "In almost every case, efficiency has improved, and in some cases we have reached and even exceeded prewar standards"; "There is unusual employee interest in company problems."

5. *Cooperation is most heavily concentrated in medium-sized firms.* Companies with from 500 to 5,000 employees account for more than half the total number of firms practicing cooperation. The remainder is divided between small companies and large ones. This may be because the small firm, in which relationships between management and labor are naturally closer, finds it easier to use more informal methods of cooperation, while the large companies are able to hire staffs of industrial relations experts. The medium-sized company, having neither of these advantages, is thus more likely to consider a formal plan.

6. *Cooperation appears to have a greater chance of success when started during periods of prosperity.* Some instances are reported in which rather far-reaching cooperation plans appear to have saved companies from disaster during periods of depression, but the larger number of the successful plans were started during periods of prosperity. When jobs are plentiful, employees displaced because of more efficient methods can be given other work. Management can afford to pay as much attention to human relations aspects of the cooperative program as to the cost-saving end of it. The financial rewards for both employees and management are likely to be greater. Some plans have, however, survived both ups and downs of the business cycle.

Some Accomplishments of Cooperation

While the extent of cooperation is not wide, the evidence obtained adds up to an impressive whole. A number of accomplishments have been quite spectacular.

For example, the U. S. Steel Corporation and the United Steelworkers have engaged in what is probably the largest joint venture in job evaluation ever undertaken; 25,000 jobs were reduced to thirty classifications, and consistent rates established. Thousands of grievances and many work stoppages were eliminated in consequence.

On the Illinois Central Railroad, the annual number of suggestions submitted by employees doubled, the number adopted trebled, in the five years after labor participation in promoting the suggestion system began. The Workmen's Safety Committee of the Colonial Beacon Oil Refinery helped reduce the number of injuries by more than ninety percent over eighteen years. The company had no disabling accidents at all in four of the last seven years. Some of the joint waste reduction campaigns at the Westinghouse Electric Corporation led to a halving of defective work losses within a year or two.

At the Cyril Bath Company, a manufacturer of specialized machine tool (ununionized), joint efforts have helped to bring about top wage scales and continuous high profits for the firm. The company's president told the survey: "I think one of the greatest untapped sources of wealth is the enlistment of the entire intelligence and dignity of the personnel of the establishment as part of the team. A team has a creative ability which exceeds any prima donna performance. I believe capitalism is a cooperative enterprise, and I treat my associates so."

At the Wolverine Tube Division of the Calumet and Hecla Copper Company, production per man-hour in pounds had increased by approximately sixty percent within a year after cooperation was introduced. Earnings went up by more than twenty cents an hour.

What Management, Unions, and Employees Think

Company view.

Of the companies that answered a questionnaire about the results of cooperation, two-thirds expressed themselves as "pleased" with its effect. Investigation showed that "pleased" in this context cannot always be interpreted in the usual sense of the word. It may mean simply that cooperation, on balance, contributed to freedom from labor strife or threat of strike when disagreements occurred, that labor and management had learned to live together more intelligently even though they achieved nothing more than a "state of peaceful disagreement" and some elimination of obstacles to higher productivity. "Disappointing" means

Table 2.

Opinion	*Number of Companies*
"Keenly pleased"	37
"Moderately pleased"	66
"Only slightly successful"	8
Neutral	3
"Moderately disappointed"	4
"Keenly disappointed"	7
"Varying degrees"	3
"Cannot measure and so cannot answer"	10
"Pending results"	7

Table 3.

	A. F. of L.	*C.I.O.*	*Independent**	*Total*
"Keenly pleased"	9	2	1	12
"Moderately pleased"	3	3	2	8
Neutral	2			2
"Disappointed"				
"Keenly disappointed"	1	6	3	10
Total				32

*Includes five railroad unions.

Table 4.

	A.F. of L.	*C.I.O.*	*Independent*	*No Union*	*Total*	*Opinion of Management in the Same Plants*
"Keenly pleased"		4	1	1	6	11
"Moderately pleased"	3	8	2	1	14	17
Neutral		1			1	0
"Moderately disappointed"	4	2			6	4
"Keenly disappointed"	1	7			8	3

that, on balance, cooperation was detrimental to efforts to reach management's economic objectives. (See Table 2).

Practically all companies felt that the limit of their cooperative efforts has not been reached. Fifty companies with C.I.O. unions, thirty-five companies with A. F. of L. unions, nineteen companies with independent unions, and eleven ununionized companies said the limit had not been reached. A vice president in charge of production summarized a common, though not typical, opinion: "I fear that in the past management has discouraged rather than encouraged labor participation in productivity improvements."

While a number of the companies which held that the limit of cooperation had not been reached referred to cooperation with employees rather than with the union, one-third of the companies studied stated that they had received a great deal of aid from their unions. Another two-fifths said that the unions had given moderate aid. Only one-fourth said the unions had given no aid. Six companies with C. I. O. unions (none with A. F. of L. or independent unions) declared further attempts at cooperation useless, the unions being the United Electrical Workers (3), the United Automobile Workers (1), and the Food, Tobacco and Agricultural Workers (1).

Union view.

Union opinion was obtained at the top union level (presidents, vice presidents, research directors) and relates to the unions' experience as a whole in connection with all projects of cooperation.

Where cooperative effort existed, the preponderance of union opinion was that it had helped to shift relationships with management from open warfare to peaceful disagreement. The detailed distribution of union opinion is shown in Table 3.

Employee view.

In thirty-five of the plants with cooperative efforts that were visited in the course of the survey, a small number of employees were consulted on their experience. The preponderance of employee opinion was favorable to cooperative experience, as shown in Table 4.

"When I am on that committee," said one employee, "I am the equal of any man in the plant, even the president." (When the president was told of this remark, he

commented: "We must make him feel that way all the time.") Another employee said: "I sure see a lot of sides to this business I never saw before. The old man played fair with us, and we understand a lot of things that were a mystery before."

Many cooperative plans have not been successful. Some companies claim that their unions have turned the cooperative meetings into "grievance sessions" or have attempted to use them as means of taking over management functions. It has been charged that the cooperative work, in the end, did not contribute anything to efficiency, despite initial advances. For example, one motor assembly department of a large plant achieved a record weekly output after the introduction of cooperation, and each participant was paid a handsome bonus. For several days following, the workers of this department "lorded" their apparent superiority over the other departments, and produced hardly one-third of the normal output the following week. Frequently, it was felt that labor lacked the basic competence and interest required.

On the other hand, union leaders claimed committees "fizzled out," because management did not take them seriously enough and allowed them to deal only with "trifles" and "ballyhoo." They complained also that management was often "too busy" to pay much attention to the committees: "Labor members waited for an hour on several occasions for management representatives to show up"; "Management was out of town all the time."

Will the Movement Spread?

A good deal of opposition to formal cooperation exists on the part of both management and labor. Some companies told the survey that the unions in their plants were attempting to decrease output rather than increase it. The union leaders, they said, considered management their "natural enemy," and unless and until that attitude underwent a change they could see nothing to be gained by expecting help from the unions.

Some managements are opposed to the idea of labor-management set-ups in principle. They feel that since management is accountable for the success of the business it cannot afford to delegate any of its responsibility. It is notable that few of the cooperative plans provide for joint determination, except in minor matters, but there is some fear among managements that groups formed to gather facts or to offer advice and suggestions may grow into the type of "joint committee" that they regard as union encroachment on management functions.

In many cases, labor leaders feared that cooperation with management might undermine the major function of the union, namely, the protection of its members. To avoid such possibly dangerous ties, some unions were willing to see cooperation confined to employees and management, though it was just this possibility and the lack of adequate participation that alarmed others. Fear of unemployment resulting from labor's production suggestions is also fairly widespread and there is some apprehension that gains resulting from increased productivity might not be fairly shared. Fear that rival unions may make capital of failures or charge "collaboration" also exists.

Those who favor cooperation believe, however, that if enough good experience accumulates to demonstrate that companies that practice it actually achieve a competitive advantage, many more managements will be brought to consider the idea. Similarly, they point out that if unions hope to continue to increase wage rates, they will be forced to interest themselves in increased productivity; otherwise, rises in wage rates will occur mainly at the expense of other groups in the economy, who will be forced to pay higher prices—and the unions may, in the end, be unable to hold the measure of public support needed to increase, or even hold, their gains. Finally, it may be better to utilize labor's greatly increased powers at the plant level through integration with management rather than through political action and government control.

Budgeting of expected receipts calls for careful analysis and consideration of market demands, economic trends, new product developments, product and price appeal, marketing channels and sales management; the best basic source of such information is salesmen's experience and opinions. Expenditures fall into four distinct classes—periodic expenditures (predetermined and controllable) and production costs (predetermined and controllable). A budget coordinator is necessary if an organization is to have efficient planning of budgets and continuous revision to meet changing situations.

Efficient Planning for Budgeting

By CHARLES C. JAMES

BUDGETING is planning. Budgeting is planning in terms of money—the great common denominator by which all economic activity is measured. Economic activities derive their inspiration from the dynamic urge for accomplishment, which may be sparked either by impulsion or compulsion. Behind every item in a budget, except taxes and other external factors, there is a responsible individual and his purposes. To speak of the "behavior of accounts," as many do, is to look at the shadow and overlook the substance. The figures merely mirror men—their motives and their responsibilities. Hence each figure should tie in directly with the individually assigned responsibilities of the executives in the organization, all the way from the president or managing director to the zone sales managers and department supervisors. Fundamentally, then, what budgeting amounts to is this—planning, in terms of money, the activities of each human being in the particular enterprise or institution for which the budget is prepared.

To assume that any private or public undertaking can be carried through without careful pre-planning—on a catch-as-catch-can policy—disregards the multitude of failures for which this happy-go-lucky policy has been responsible.

Charles C. James, President of S.A.M. for 1948-49, is Associate Counsellor with Stevenson, Jordan & Harrison. *This paper was presented at the First Pan-American Engineering Congress at Rio de Janiero in July.*

In his remarkable treatise on the *American Battle for Abundance*[1], Charles F. Kettering makes clear that adequate planning is the prime essential for success in every large undertaking. A job well planned is more than half done before it is begun. The reduction of plans to money values stated in writing is merely the practical application of this fundamental prerequisite to success. Floyd H. Rowland states aptly, in his admirable book on *Budgeting for Management Control*[2], "It is safe to say that any plan which can not be made to work out satisfactorily on paper will seldom achieve this result later in actual operation."

Budget Coordinator

Efficient planning of budgets requires a coordinator—a man to whom is assigned the responsibility for fitting together into a completed budget all of the proposals of the company's executives. The coordinator will confer with each of these executives in turn. Aside from sessions with the president or managing director alone, every budget conference should be attended by two responsible executives: first, the man directly responsible for the specific items immediately under consideration, and, second, his immediate superior. No argument should be needed to show the wisdom of having each direct supervisor sit in on the determination of his own budget. His presence is always justified by the value of

1 General Motors, Detroit, Mich., 1947.
2 Harper, New York, 1945 (p. 119).

the intimate knowledge he brings to the conference of his own operations, by the larger view of his responsibilities he takes away with him, and by the presumption his attendance affords that all decisions arrived at will be practical. The attendance of this man's superior is no less important. On the shoulders of this superior rests the larger responsibility for the proper planning in detail of all the factors under his control. With him alone, if he is the proper man for his job, abides a grasp of the advantages or disadvantages of every proposal his subordinate may offer and its relation to the performance of his other departments. Without the participation of his voice of authority the whole process of planning becomes speculative, yet how often is the big chief "too busy" to take his place on the budget committee—too busy, let me say, with matters of far less importance.

Sales Income

Every budget must have two sides, one for estimated receipts and the other for allowed expenditures. Receipts must at least equal and should exceed expenditures. While in government departments and some research foundations it is often possible to predetermine exactly the amounts to be received, in a business enterprise this can seldom be done. Nevertheless, it must be attempted and sometimes the results are surprisingly accurate. The Bausch & Lomb Optical Company of Rochester, New York, sells a range of products that covers more than 40,000 varieties. Edward S. LaRose, its controller, has for many years forecast the company's receipts from sales with a deviation seldom larger than five percent.

In June, 1931, speaking before the twelfth international cost conference of the National Association of Cost Accountants, Mr. LaRose summarized the essentials for budgeting sales as he had then developed them. He has continued to direct the budgetary control over his company's operations up to the present time. Throughout this period he has written many papers and delivered many addresses on the subject[3]. Nevertheless, at this writing I have his assurance that his original list of essentials remains intact, except for only minor refinements developed by his subsequent experience.

These essentials, as set forth in 1931, were as follows:

1. Study your normal business growth, using average monthly and secular trends;
2. Forecast general economic conditions a year in advance;
3. Find the deviation between your business and general business conditions;
4. Temper your growth, if necessary, with general business conditions;
5. Use a profitgraph to determine whether proposed or adjusted volume will create earnings desired;
6. Know your potential market by product, by district, by trading area;
7. Eliminate waste in distribution by concentration on profitable areas and products;
8. Beat depression by new products, advertising and increasing your goals in areas where potential is under-absorbed;
9. Know your seasonal trend of sales by products;
10. Develop a sales budget in both units and dollars by class of product, by month, by district, by trading area, by branch, by salesmen, by customer.

All of which is to say that the budgeting of receipts from sales requires careful analysis and consideration of what is known and what can be found out about market demands, economic trends, new product developments, product and price appeal, marketing channels, and sales management.

Moreover, efficiency in budgeting sales income can be attained only by planning for the future in the light of past experience, but all past experience must be projected into the future with circumspection, and with imagination based on our present best judgment of future developments. Otherwise we shall plan to travel in a circle when we ought to be heading off into new and different paths.

Like processionary caterpillars, we may travel in a circle until we perish. Jean Henri Fabre, the great French naturalist, once set a procession of caterpillars crawling around the edge of a flowerpot, where they continued endlessly 'round and 'round until they fell off from starvation. The point can not be stressed too strongly that mere blind following of past experience has been the beginning of the end for many an enterprise.

With an established business the best basic source of data is the careful codification of salesmen's experience and opinion. Such codification is by no means quickly obtained. A rough beginning can be made by interviewing the salesmen individually, but when we try to reduce to a detailed record the knowledge that salesmen have of their sales potentialities the result is usually shocking in its incompleteness. The attempt and its resultant shock will thereafter stimulate the gathering of

3 "Budgeting Sales and Selling Costs," July, 1940, American Management Association; "Budgeting and Controlling Postwar Operations," November 4, 1944, Anniversary papers, National Association of Cost Accountants.

essential data by individual salesmen. By the time another budget year rolls around the information available will be much better.

Thoroughly reliable data, however, cannot be expected before the third annual attempt. Even then it will be confined to large customers. However, in manufacturing enterprises many tests have brought out that ordinarily about eighty-five percent of a company's business is secured from fifteen percent of its customers. As to these larger customers the information required for budgeting sales varies with the type of business, its channels of distribution and the size of individual orders. A check-list, which serves at least to point the way, embraces the following:

1. Description of each prospect's business;
2. Estimated annual purchases of products for which the salesman can compete;
3. Estimated percentage of customers' purchases from the salesman's company;
4. Names of competitors, and comparisons with competitors' products, prices and service;
5. Customer's satisfaction with company's products, prices and service;
6. Customer's financial rating and record for promptness of payment of accounts;
7. Customer's past purchases tabulated by months and types of product.

Lacking basic data from salesmen or other first-hand information on potential markets, recourse must be had to market surveys or even as a last resort to educated guesses by sales managers. Indeed, even when trustworthy information is in hand, it must, as has been said, be modified by executive judgment as to future business prospects, future general business conditions, the inroads of competition, the effects of obsolescence on old products and the potential demand for new ones.

To discredit the reliability of sales forecasts because wide and unexpected changes in general business conditions occasionally throw them off the beam is to base conclusions on exceptions rather than the rule. Such wide fluctuations do occur but they are many years apart. Wise judgment is content to deal with their distracting effects when they can not be avoided but otherwise to carry on from year to year as if no such hazards threatened the orderly planning of current budgets.

The troubles of a company's management in such abnormal situations have their parallels in other fields of human endeavor, where it is also true that emergencies require emergency measures. For example, ships navigating the Caribbean Sea occasionally find themselves driven up on a lee shore because unsuspected changes in ocean currents have thrown their navigating calculations awry. Then sextant, chronometer, compass and charts are of little help. The immediate problem is to bend every resource and effort to staying off the rocks and trying to sheer off into deep water. If the master of the ship is successful in avoiding stranding and finds himself once more in the open sea, certainly the last thing he will do will be to throw overboard his navigating instruments and his charts because they were useless to him in his emergency. The management that loses confidence in budgeting because it has not proved a guide to success under unforeseeable conditions would be equally foolish to abandon budgeting as the prime requisite for successful operation under normal conditions.

Another factor that is assuming constantly increasing importance in every businessman's outlook is the world-wide interference by government regulation with his freedom of competitive action. In the United States the enactment of Federal and state restrictions on business, supplemented by court interpretation of the laws as written, tends to produce artificial and uneconomic checks upon free and orderly competition. For businessmen to protest against such restrictions seems useless and to disregard them is dangerous. Accordingly, to budget sales with any degree of accuracy, government regulations must be taken into account, along with the other modifying factors already mentioned.

Sales Deductions

In arriving at estimated sales income, allowances must be made for the customary deductions from gross sales to arrive at net sales, namely:

1. Trade discounts;
2. Cash discounts;
3. Freight and other delivery allowances;
4. Customer returns;
5. Salesmen's and brokers' commissions.

Some enterprises have sources of income other than the sale of their products or services. If so, the receipts from such sources must be estimated and added to those of sales to arrive at total estimated income.

Out-Go

On the opposite side of the industrial budget, allowances for expenditures should be kept enough below budgeted receipts to leave a margin of safety in normal times over and above the profit that is requisite to maintain the company's financial strength. Building up finan-

cial reserves during periods of good business is necessary for there are bound to be set-backs when such reserves will be life savers for the enterprise. In fact, the necessity for creating reserves to tide over hard times is now coming to be recognized by forward-looking labor leaders in the United States. The head of the International Ladies' Garment Workers' Union, A.F. of L. stipulated recently that dress manufacturers must be required by their labor contracts to conserve enough out of profits to insure continuous employment of workers, at some reduced scale, during periods of business recession[4].

In budgeting out-go it is necessary to make provision first for all items that are predetermined by conditions beyond control of management during the budget period. This is to say that previously determined or non-controllable costs must be deducted from anticipated income to discover how much income will be left for other purposes.

Expenditures will then logically fall into four more or less distinct classes, each of which should be dealt with in turn:

a. Periodic expenditures—Predetermined;
b. Production costs—Predetermined;
c. Production costs—Controllable;
d. Periodic expenditures—Controllable;

(Note: If budgeting of out-go is to be planned efficiently it must be kept free from the restrictions of standard cost procedure. Hence the four steps of budgeting expenditures are here designated by unusual terms to avoid the confusion of understanding that might result from the use of the everyday words that cost accountants employ with meanings all their own.)

a. *Periodic expenditures—Predetermined.*

These include but are not limited to the following:

1. Interest on indebtedness;
2. Property and franchise taxes;
3. Sinking funds and other types of debt amortization;
4. Premiums for insurance against fire and other hazards;
5. Amortization of investment in plant and equipment, usually termed depreciation; good judgment requires that each expenditure for plant and equipment should be recovered within a few years out of revenues or savings in expenses, to avoid being overtaken by obsolescence; the obsolescence hazard should be recognized and amortization of the cost of such improvements should be budgeted over the same period of time;
6. Maintenance of dividends at least equal to the return promised on the equity capital invested in the business; such promises may have been contained in the original underwriting or developed as a matter of corporate history;
7. Heat, light, water, and other similar service expenses in factory and office;
8. Cost of maintaining and otherwise keeping the physical plant of the company in repair against the ravages of time and the effects of the elements.

b. *Production costs—Predetermined.*

The second step in planning budgeted expenditures is to approximate as closely as possible the uncontrollable out-of-pocket costs of producing the goods or services that the enterprise must have in order to meet its budgeted sales. If a company that manufactures for stock plans to increase or decrease its inventory of finished goods, production may total either more or less than the volume of sales.

It is a fact often overlooked that out-of-pocket unit production costs, or "variable costs" as they are sometimes called, are practically predetermined by commitments or conditions beyond the scope of control by the current budget. True, these commitments and conditions may be changed by developments during the course of the budget period, but such changes cannot be anticipated at the time the budget is prepared; otherwise they would be incorporated in the data on which it is based.

For example, in manufacturing we add value to materials by processes that increase their usefulness for particular purposes. We grind wheat into flour and by-products, we convert live animals into meat and other products, we smelt ore into iron, convert iron into steel, forge steel into shapes, machine forgings into axles, and assemble axles into trucks. Each stage of the process requires a specified quantity of material, which must be converted into money for the budget at its anticipated price. Such prices must be forecast in the light of the current view of future material price trends.

If these price forecasts prove wrong the budget must be correspondingly revised, or the divergence in prices must be incorporated in a supplementary budget as "material price variances," to be superimposed directly as an addition to the cost of sales of the products affected.

Again, if during the course of the budget period a change is made in specifications that requires the use of

4 *New York Times*, March 13, 1949.

more material, or less, or material that is different, the budget must be changed accordingly, or else the effect of the change must be incorporated in a supplementary budget as "manufacturing specification changes."

Moreover, if new methods of manufacture are developed that require more or less direct labor time or the use of different classes of labor, the budget must then be changed or the increase or decrease in direct labor costs must also be incorporated in a supplementary budget as "manufacturing method change."

Similarly, if changes in wage rates take place during the budget period the budget must be revised or the increase or decrease must be incorporated in a supplementary budget as "wage revisions."

It may even be that other changes will affect other out-of-pocket unit production costs, such as power, steam, air, cutting tools and other supplies. If the increase is sufficient to distort the original budget figures materially they must be recognized and budget revisions or supplements made accordingly.

All such modifications of the original budgets, however, follow developments that could not be earlier foreseen. Hence, at the time of preparation of the original budget the out-of-pocket unit costs are projected in the light of the then known facts.

c. *Production costs—Controllable.*

In contrast with non-controllable out-of-pocket unit costs, many other production costs fall strictly within the scope of current control through budget allowances.

Poor workmanship or inadequate supervision will produce defective products that will have to be reworked, repaired or scrapped.

Unbalanced operations, poor scheduling, operating interruptions and other delays will result in lost time and overtime work with its attendant penalty payments.

Machine breakdowns, employee absences, extremes of weather, and casualties will also entail payments for lost time.

While none of these happenings can be specifically foreseen, they are bound to occur and provision for their irreducible minimum must be included in the budget more or less by actuarial computation.

Hence the budgeted labor cost per direct labor minute or hour must include a loading factor on top of the pay of the worker. It is customary to classify this as overhead, burden, or on-cost, but it is highly misleading to do so.

Unit production costs are therefore computed by adding together these elements:

1. *Material costs*: Quantity as specified, with additional allowances for waste and defects, multiplied by anticipated price;
2. *Production labor costs:* Minutes or hours of workmen as prescribed, with allowances for absorbing lost time, re-work, and other inefficiencies multiplied by the prevailing wage rate plus an upcharge to cover overtime, shift, and vacation bonuses, social security taxes, welfare contributions, and premiums for compensation and other liability insurance that are based on the pay of the workmen;
3. *Other out-of-pocket unit costs*: Power, fuel, water, steam, and air consumption; cutting tools; lubricants, etc.

Total production costs are obtained by multiplying the unit costs of each product by the budgeted output of such products.

d. *Periodic expenditures—Controllable.*

Once production costs have been established, the next step is to arrive at allowances for the periodic costs of factory operations. These include supervision, service, certain supplies and maintenance, as appropriate for the budgeted volume of production. In determining such allowances for supervision and service the rule should be, unless betterment of quality is at stake, never to spend a dollar for either that will not save more than a dollar of direct labor or material costs.

Experience varies widely in the application of this rule. Some individual foremen can supervise a hundred workmen adequately but such cases are rare. General practice is to have about one foreman for every fifteen or twenty workmen. A timekeeper may or may not be able to save more than his pay by relieving workmen of clerical duties. Set-up men and move-men may be able to save more than their pay by keeping machine operators at continuous production. Inspectors, clerks, attendants, and other auxiliary help, as well as general foremen, dispatchers, method and time study engineers, superintendents, a storekeeper, personnel manager, works manager, may or may not more than earn their pay. If not there should be no place for them in the budget.

Projected costs for supplies and other incidental expenses ordinarily should be based on their past relation to direct labor hours or productive machine hours, adjusted for price changes but modified to fit the needs of current changes in requirements, anticipated price fluctuations, and the limitations of current income.

Upkeep of machines and equipment can be budgeted with fair accuracy only by a physical survey of the

FORM (Exhibit A) ALLOWANCE NO. Ww-3-EA (FOR PLANT MGRS. USE ONLY)

EXTRA BUDGET ALLOWANCE

INSTRUCTIONS – Under explanation give reasons why the expense for which you ask an extra budget allowance should not be charged against your current allowance. If you cannot give actual amount of expense, estimate it as well as you can.

Dept. Request No. 11
Period: War Time

Dept.	Acct.	Amount
All	All	

EXPLANATION: The entire cost of special guards required by the Government for plant protection during war time will be cleared to "Extraordinary War Time Costs", which is a special "Cost of Sales" account. This will not include regular watchmen's pay and expenses necessary to safeguard our properties against ordinary peace time hazards of fire and pilferage.

ACCOUNTING DEPARTMENT'S RECORD

Charge to: ACCOUNT OR ORDER NO. | AMOUNT | PERIOD

Extraordinary War Time Costs

Audited and recorded by: C.DeH Date 9-12-43

NOTE – Items chargeable against this allowance on time tickets, requisitions and other documents should be marked with ALLOWANCE NO. (Use REQUEST NO. if allowance is awaiting approval.)

Requested by: D.K.S. Date 9-7-43
Recommended by: C.C.W. Date 9-7-43
Approved by: G.Y.G. Date 9-7-43

probable maintenance necessary for each machine and unit of equipment in use at the beginning of the budget period or to be put into use during the period.

All of these items of controllable periodic costs should be budgeted to correspond to the projected production but under a scale of allowances that indicates how they will increase or decrease as current productive activity goes up or down. For example, in seasons when a department in a shop is operating at maximum capacity it may require a foreman, an assistant foreman and a clerk. As activity falls off the assistant foreman may have to go back on the bench. If activity continues to fall off the foreman may not only have to do his own clerical work, but as working forces shrink fewer foremen may be required and staff and office forces may have to be skeletonized or put on a part-time basis with commensurate reductions of pay. Even needed maintenance work may have to be deferred.

Finally, but far from least important, comes the budgeting of general selling and administrative and collateral expenses. This must be performed in the rarefied atmosphere of what for want of a better name is called company "policy." A better word than "policy" should be used because that term is likely to be misleading. One of the dictionary definitions of "policy" is, "Management or procedure based primarily on material interest, rather than on higher principles; hence, worldly wisdom." Perhaps a better designation would be "sound principles of management."

General expenses of managing the business may cover a wide or narrow field, as wisdom may dictate. The principal items of controllable periodic costs within this class are:

Salaries and expenses of major executives and their staffs;
Executive incentives and other bonuses;
Professional services;
Advertising;
Research and development;
Contributions.

Organization. Determination of the requisite organization of general and sales executives and their staff, one that is appropriate to the contemplated size of the business, is the supreme test in planning budgets. Two major errors are prevalent.

First, the owner of a one-man business feels that he can carry on long after the accumulating problems for executive determination have outweighed his capacity for handling them alone. He is like the farm boy who lifted a calf the day it was born and continued to lift it every day thereafter, with the confident expectation that as it grew little by little his strength would measure up to its increasing weight. Unfortunately, the day came when it broke his back.

Second, once the need for subordinate executives and staff assistants becomes recognized, the tendency is to overdo. People in an organization can always find need for more help to handle matters that seem to them of great importance. The story is told of a railroad whose president found it necessary to make a place for a relative of his wife. As there was nothing for the man to do he was assigned to watch the trains go by out in the open country. It was not long before he had an assistant, a stenographer, an office, and even then was finding difficulty in sending in reports to headquarters of the number of cars that passed him each day. As a matter of fact he was a most harried individual, because whenever one of his reports was late in arriving at headquarters he promptly got a telegram criticizing him for his inefficiency.

Executive traveling and office expenses. Probably the controllable periodic costs that are most elusive to budget are the expenses allowable, at the discretion of the company's principal executives, for traveling, entertaining, telephoning and other prerequisites of their activities and those of their staff.

Executive bonuses and other incentives. So far as prior commitments have not established formulas for profit sharing or other incentives for executives, consideration should be given to including such incentives in the current budget.

Professional services. Few companies can or should maintain staff specialists competent to deal with all the technical problems that arise on matters of taxation, accounting, engineering, welfare and legal rights and limitations. Outside professional advice must be obtained to a greater or less extent. Its cost must be anticipated and budgeted.

Advertising. The size of the advertising budget may be the key to the success of the business. Too little advertising or too much may be equally unprofitable.

Research and development. The company that does not maintain an orderly program for developing new products and improving old ones will sooner or later fall behind its more progressive competitors. Hence provision should be made in the budget for some one to carry the responsibility for product research and development, and also for market research. This does not necessarily call for an elaborate research laboratory with a staff of engineers but does require the services of one or more competent men who will devote sufficient time to the work to cover the field adequately.

Contributions. Pension provisions and life insurance premiums on officers and employees, if any, may or may not be expenditures within the scope of control of the current budget, depending upon whether or not they have been predetermined by previous commitments. Contributions for public welfare activities should be budgeted under advice from the board of directors.

Financial Planning

When the forecasted sales and budgeted expenditures have been rationalized to yield adequate earnings, the disposition of such earnings remains for determination. Such determination controls in part the preparation of the *pro forma* balance sheet and statement of increases and decreases in working capital, as well as the collateral cash budget and the budget of expenditures for additions and betterments of plant and equipment. Limitations of space for this paper will not permit of elaborating on the preparation of these auxiliary records. Morever, they belong in the realm of financial management, which is a field in itself.

Final approval will scarcely have been affixed to the completed budget before unanticipated developments will require its modification. For this reason the coordinator of the budget will have a continuous job. As has been said already, flexible allowances to synchronize with fluctuating activity will be built into the original budget, so far as possible, to provide elasticity without loss of control. Variances between budgeted and actual sales and expenditures will be brought out in the accounting returns for each period, raising a question as to why the responsible executives have not been able to accomplish planned results. When such variances are found to be due to unavoidable conditions, the budget must be revised to incorporate their effect. If the revisions are drastic and far-reaching, they may require a reissue of the budget. For the most part, however, they may be conveniently and effectively dealt with by means of the simple form illustrated in Exhibit A. The practical use of this vehicle is aptly described in the instructions printed on its face.

Between analyzing variances, running down their causes, developing measures for improving performance, and planning new standards of achievement, the coordinator of the budget will be a busy man. If he himself measures up to the opportunities of his job he will not soon have to be dropped out of his own budget for failing to earn more than his pay.

A lecture program designed to help improve attitudes and skills in human relations was given to supervisors, who were asked to share the experience by bringing their wives. When continuing growth and learning are stressed, we begin to understand that the same principles of rewarding living can apply both on and off the job.

The Supervisor and His Wife Study Human Relations

By HAROLD H. SCHROEDER and BLAIR K. SWARTZ

For the last two years The Detroit Edison Company and the Michigan Bell Telephone Company at Detroit have sponsored a lecture program for their management people. The lectures were presented by Dr. and Mrs. Harry A. Overstreet and were all on the general subject of personality development. The meetings were held after hours and attendance was voluntary.

At the suggestion of the Overstreets the management people were requested to bring their wives or husbands. Unmarried people were urged to bring a close friend to the meetings. This was done because the object of the program was to improve insight into one's behavior patterns and to stimulate change in them. Sharing with a confidant the ideas and feelings that resulted from the meetings was expected to improve the chances for understanding and acceptance of the ideas.

Each of us was close to the program in our respective companies. We believe we can best review it for you conversationally.

—Authors' note.

* * *

HAROLD. Right off, Blair, perhaps we'd better make it clear that this project we are describing is just one of many possible types of off-the-job activity that tend to give breadth to the executive's understanding.

Harold H. Schroeder is Personnel Relations Assistan. at the Michigan Bell Telephone Company. Blair K. Swartz is Personnel Consultant at The Detroit Edison.

BLAIR. Yes, Harold, you're right. Let's put it in its place. Some would say that it is not even on the main track of executive development; that it's off on a short spur. We probably would claim it to be on the main track but of a wider gauge road than usual.

HAROLD. We should be properly modest about it for we don't have much in the way of proof of results. Let's tell how this Overstreet course started.

BLAIR. The idea grew out of a contact back in '44 or '45. Three of us in Detroit Edison happened to enroll in a University of Michigan Extension Division course. I believe it was called "Problems in Adult Education" or some such title. It wasn't the name of the course that attracted us. It was the names of the instructors: Dr. Harry A. Overstreet and his wife Bonaro W. Overstreet. We had read some of Dr. Overstreet's books, knew him to be inventor of the Overstreet Jury Panel for large group discussions, and had seen him lead some unusually good discussions. The classes were of average size, thirty to fifty people, teachers, librarians, social workers, and the like. As a team they presented the subject matter and conducted the discussions. Compared with the usual teacher-class relationship and method, they were most unusual and acceptable. So when Everett Soop, who was in charge of U. of M. Extension Division Services, one day casually asked us whether we thought there might be a place in industry for the Overstreets, our immediate response was: "There must be."

HAROLD. They didn't start at once with the executive level, did they?

BLAIR. No. I tried to sell my Vice President on using them the following Fall with a group of executives. He felt the unknowns were too many and suggested that I approach one of our large employee clubs, the Edison Business Club. This Club has a long and active history. Its main activity is a monthly evening, except during summer months, of dinner and entertainment. About seven hundred people, male employees, their wives and girl friends regularly fill our assembly room. They also sponsor certain types of educational activity. The Club's Executive Board heard my unqualified recommendation.

HAROLD. You don't make many like that.

BLAIR. It's a brave man who does, these years. Except for one member, the Club Board was ready to accept my opinion. That fellow held out for a simple survey of the club membership to determine whether there would be enough interest to warrant a contract with the University. The survey was made and about one hundred signified serious interest. That was enough.

There followed a number of conferences with Mr. Soop and the Overstreets, for this was new territory. In August publicity went out and when the course started about two hundred were enrolled, a number we had hoped for. Five dollars was the fee. It met one night a week for eight weeks. It was called "You and Your Possibilities—Eight Evenings With the Overstreets." It was very well received, so well that we had no trouble with the suggestion that the following Fall it be offered by the Company to supervisors at the top of the pyramid—vice presidents, department heads, division heads, and equivalent. It was after we had told you of our "find" that you decided to use the Overstreets too. Since our two plans were almost identical, a statement of objective, outline, schedule and a typical evening would tell what happened in both companies, except for some minor differences.

HAROLD. The general objective could be labeled "growth in understanding of people." It assumes that, although the industrial environment adds several unique conditions, basically the factors and forces making for good human relations are the same in plant, office, home, community, church, club; in short, wherever two or more people are together.

The title of the first course, given in the Fall of 1947, was "Understanding Ourselves and Others." And it was as broad as it sounds. The list of weekly subjects was as follows:

1. The Growth Pattern of Personality;
2. Getting Across With Words;
3. Putting Life in Order;
4. The Power of Ingenuity;
5. Growing Through Knowledge;
6. Principles of Human Relationships;
7. The Durable Companionships of Life;
8. Developing Background and Foreground.

BLAIR. It's apparent from that list that this was no short course in glamour or "winning friends." Quite the contrary. It looks like rather heavy stuff. We're agreed, aren't we, that the same material in the hands of most teachers would be too heavy?

HAROLD. For sure. The Overstreets, their manner and method, were at least half of the effectiveness of the Course. But a bit more on the schedule. About 250 enrolled in the Course, mostly higher level supervisors and their wives. The group met one night a week, for eight weeks, mid-September to mid-November. Dinner at a nominal charge was served in the Company dining room from 5:30 to 7:00. On each meeting night a different couple acted as host and hostess for the Overstreets. Five or six others were seated at the same table. We then assembled in our auditorium for a lecture from 7:00 to 8:00 p.m. This was followed by a fifteen-minute recess, then questions and discussion until 9:00.

Outlines of all subjects were distributed beforehand. At each session following the first, a summary of the preceding meeting was handed out. This was written by the Overstreets.

BLAIR. "School was dismissed" at nine. Let's skip the other formal details and try to tell why this was not just another bit of school. As you have indicated, the Overstreets as people, as personalities, were more than half of the success of the project.

Their platform manner is difficult to describe in words. Motion pictures, with sound, and color, would do a better job than these words.

In the first place, each of them is a warm, friendly, kind, energetic, charming personality. They each give you the feeling that life is good, exciting, full of opportunities and unfinished business.

They are both deep students of human relations. And much of their knowledge and wisdom comes not from books but from working with people. They are nationally known in the field of adult education. They have lectured across the country. They have worked extensively with a wide variety of adult groups in New York, Michigan, and California. Dr. Harry A. Overstreet was for many years head of the Department of Philosophy and Psychology at the College of the City of New York. He has written many widely read books including *Influencing Human Behavior, About Ourselves* and this year's, *The Mature Mind,* the August Book-of-the-

Month Club selection. Bonaro W. Overstreet has also written widely. Among her books are *Freedom's People* and *How to Think About Ourselves.*

HAROLD. You have described the Overstreets as unusual individuals. It's their action as a team that also is effective. Here, as in many of the things that they do, they actually carry out and apply what they say. In one of their lectures they developed the point that there is "a peculiar arithmetic of the spirit":

> "One plus one, in psychological terms, may equal much more than two—if each party to the equation is released and inspired by the presence of the other —or much less than two if either party is rendered shy and inhibited by the presence of the other. The social aim of life becomes that of establishing relationships in which all people concerned, by the chance they have to operate as leaders, followers, and equals, become *more* than they could be in isolation, not *less* than they would be if they were alone. In the most successful relationships, one plus one may equal infinity."

It is obvious to anyone hearing them as a team that they are much more than a simple addition of one plus one.

Naturally, most of their material has been well thought through and talked over hours and months ahead of time. But it always has a freshness about it. And because of their effect on each other, and the reaction of a receptive audience, often a new thought is born, a new path explored—jointly, publicly.

All in attendance can see before them an example of the principles that are being developed. One theme that runs through all of the Overstreets' thinking is that most adults have stopped growing. We all have much untapped potential. And the happiest people are those who are forever developing that potential. One of the chief areas of growth is social growth, of learning to pass from merely external judgment of other people to an "interior" understanding of them, so that we feel as they feel, see as they see. These two points and many others made by this pair we see demonstrated before us. Their attitude toward each other, the stimulation of one for the other, their mutual respect and understanding, show up time and again there on the platform. And away from the platform. And it's clear that this is no act they're putting on. It's a sincere application to themselves of the things they talk about.

BLAIR. They take advantage of the principle that two people who are close in relationship to, and understanding of, each other will reinforce each other's ability to see themselves as others see them, which is the first step toward improvement. Since, in their relations between themselves and with others, they "practice what they preach," they make superior teachers, especially of husbands and wives. That being so, shouldn't we say that a major point we want to register is something like this (to paraphrase a certain advertising slogan):

> In helping an industrial executive or supervisor increase his ability in good human relations *never underestimate the power of his woman.*

HAROLD. Yes. And that results from not one but several reasons. If she's the right sort, she can be a help in his learning, help in the difficult problem of breaking down old and setting up new habits. The group lectures and discussions may change his attitude and sell him on the value of a different way of handling himself, or, as the psychologists say, give him a new insight and a strong motivation. But unless he immediately applies the new insight or principle in practical situations, succeeds and fails, adjusts and polishes his method, the new resolution will meet the fate of most of those made on New Year's Day. That's where his lady partner comes in. If she's the right sort, she wants him to improve in his human relations. For if the principle he's got hold of is valid, it will help him on his job and also make him a better husband and father. She's in an unusual position to help. She can be kind of a constant supporter-coach. Of course, the ideal situation is where they both select a certain aspect of themselves for improving and make it a joint operation, an interesting and rewarding game.

Although we have been talking about the husband-and-wife team, this same principle works with any two people who are interested in each other's future and who are close enough in their relationship to feel comfortable in discussing questions of this kind.

BLAIR. You preceded your point by saying, "if she's the right sort." If the partner isn't the right sort then the hope is that out of the talks and discussions she will get an insight and urge that will make her a better person to live with and that her executive—or supervisor-husband—will be a better man on the job.

Perhaps we should give an example of what we mean by the husband-wife being a learning team.

The third session of one year's course was on the subject "Putting Life in Order." The Overstreet outline of that evening's talk accompanies this article.

The summary as shown is, of course, just the bare skeleton of the hour's talk, but it will give an idea of the nature of the subject matter. The details developed and the many examples cited during the lecture made it much livelier and better understood.

PUTTING LIFE IN ORDER

The third session of the course dealt with problems of *putting life in order:* the various ways in which we can so organize our time and resources that we will achieve a greater sense of generalship in our lives and escape the feeling of being pushed around by the things we have to do. While all people have the same amount of clock-time in a day, some of us seem always to be breathless with hurry, while others of us, no less busy in terms of accomplishment, give an impression of unhurried poise. The aim of this session was to consider how we can enjoy, not more time, but more *in* time; how we can, to borrow a phrase from William James, have air and space in our souls.

To achieve poise in the use of our time and resources, four principles were suggested as basic:

I. Know where time goes:
   - A. Obligated time—which can be made more fruitful by:
     1. Having brief time-out periods to relieve tension;
     2. Having material organized for maximum efficiency and comfort.
   - B. Free time—which can be made to seem longer by:
     1. Having plans for its use, so that regular provision is made for avocations and such civic and religious experiences as we want to include in our schedule;
     2. Having materials arranged so that even a few minutes can be enjoyed;
     3. Leaving some unplanned margin of freedom;
     4. Cooperating with others on a like schedule to exchange duties and stretch periods.
   - C. Waste time—time spent waiting for buses, etc.—which can be salvaged by:
     1. Learning to use our physical senses for positive enjoyment;
     2. Practicing to say what we care about saying;
     3. Memorizing things we want to learn.

II. Give complete attention to what we are doing while doing it:
   - A. Avoid the feeling and appearance of hurry that comes from "split personality" habit of dividing attention between what is being done and what has to be done at a later period: as when a person, talking with a friend on the street, seems from the moment of meeting to be ready to hurry on;
   - B. Learn to concentrate while reading and studying by training ourselves to give concise statements of the meaning of what we are reading.

III. Have the habit of definitive action:
   - A. Make decisions swiftly *where nothing important is at stake,* saving the vital human power of "delayed response" for times when further consideration or research is called for;
   - B. Break the habit of procrastination by:
     1. Projecting the mind ahead to the time when unpleasant tasks will be finished;
     2. Building an image of ourselves as persons of prompt action;
     3. Actually starting to do what we have to do *as if we felt like doing it,* so that bodily action can help create a fitting mood.

IV. Know how to take gay liberties with the schedule: since the aim of time-planning is to achieve freedom in life, a tyrannical schedule may do as much harm as a tyrannical habit of inefficiency. To feel free, we must so organize life that efficient regularities can be modified to allow for chance impulses and gay adventure.

Many of the ideas are not new or world-shaking. But if, for example, our supervisor is being pushed around by the too-many things he has to do, he will be listening for some hints that will bring him relief. It might be that "having material organized for maximum efficiency and comfort" will catch him, or "make decisions swiftly where nothing important is at stake." He talks it over with the lady on the way home. Some details are clarified. He tries his wings the next day. He succeeds. Maybe she resolves to try out the same ideas, or some others. They compare experiences. They help each other. And some new habits, though small, are under way.

The support of some one close by at the time of changing attitude and experiment can mean the difference between growth and no growth.

HAROLD. I believe we should say something more about the theme which is emphasized all through the course. In fact, without its truth the course would be futile. That is, that adults can learn, and can continue to learn, grow, mature, until they die. If industrial managers and supervisors could really get hold of the possibilities of that simple basic thought, it could bring valuable results in any organization. Our culture focuses attention on the glamour and the joys of youth, whereas, compared to the possibilities of the growing adult, the young person's rewards are trifling.

BLAIR. The Overstreets are a good example of continuing growth. Their course last winter was different and better than the one before. And they tried out some new methods during the discussion period. Some people, of course, didn't like that. They wanted to listen to lec-

tures by the experts and nothing more. But we know that most of the people welcomed the personal applications as developed in discussion.

HAROLD. Yes. An example of that is the new methods we tried this year to stimulate active participation in the discussion following the lecture. In the first series a year ago the discussion period was handled by questions from the floor, either oral or written. These questions were then answered by the Overstreets. We noticed that, first of all, we didn't get many questions and, secondly, the questions tended to be of a personal nature, in many cases having little group interest. This year, with the encouragement of the Overstreets we tried out a method of breaking the group up into committees of six. This is a method developed by Don Phillips of Michigan State College originally for use with farm groups in the Farm Extension Work. The audience was seated in multiples of three, either six or nine between aisles. The groups of six were formed by having three people in one row turn around and join the three immediately behind them. They selected a leader for themselves, addressed themselves for six minutes with the question "What single question would we most like the Overstreets to answer as a result of the lecture tonight?"

All this was done immediately after the lecture and consumed about ten minutes. After this, we had a short ten-minute break during which the questions were consolidated and certain of the group leaders presented the questions from their groups to the Overstreets in the discussion period. I think we all agreed that the quality of the questions was greatly improved, especially from the standpoint of their interest to the entire group. When our audience was surveyed they told us by a large majority that they liked the committee method.

BLAIR. There's another important theme that runs through or under all of the specific subjects. It is that if life is really to make sense, if it is to be felt really worth while, the same principles and rules must be seen as applying on and off the job. The common denominator of real satisfaction in business, in the home, in the community, in all phases of living is good human relations. The traits and skills that make up the good supervisor or executive also make the good husband and father, and the good civic leader. Husband and wife hearing and discussing such a modern viewpoint together make a promising starting point for action in that direction.

This raising of the horizons of adults is a tough job. It's much easier at nursery school age. But the speed at which events are moving these days means that we shouldn't wait for the new, presumably enlightened, generation to take over. We must start with what we have. Greater effects can come from small changes in those now in positions of leadership than from great changes in those not in such places.

HAROLD. Small changes are about all we can hope for from a short lecture-discussion series such as this. And the changes will not at first be in human relations skills but in attitudes, in philosophy. Growth in skills must come from some long-range program of detailed coaching and follow-through. That's "another story" and not the purpose or the effect of this course.

As to the certainty of even small changes, we do not have scientific proof. I remember you passed out some Comment Cards at the last session of your course. What did you catch?

BLAIR. First of all there were few adverse comments. That probably ties in with the attendance record that was unusually high. Since it was a voluntary matter I'm sure the supervisors wouldn't have continued every night if they didn't feel the time well spent. Maybe the Mrs. helped with a little unexpressed pressure; I don't know.

The Comment Card brought reactions such as these:

"Well planned"; "Enlightening"; "Valuable"; "Inspiring"; "Capably handled"; "Constructive"; "Splendid"; "Fine" etc.

"Excellent—it challenges one to re-evaluation and gives our goals a boost forward."

"Very instructive, but I wish I might have had this course fifteen years ago."

"I liked it as a whole and in all its detail. I'm gratified for the opportunity."

"A good preventive for leveling off."

"Stimulating but only worth what we do about being stimulated."

How about a summary before we finish, Harold?

HAROLD. It can be simple and brief.

If an organization is interested in helping its supervisors improve their attitudes and skills in human relations, it should not overlook the possibility of a series of meetings that tap the current knowledge of the social sciences and in which the supervisor participates in the adventure with someone close to him.

Workers who are given more freedom and responsibility tend to enjoy higher productivity. The research program of the University of Michigan's Survey Research Center revealed that supervisors who appreciate their job as one of understanding and motivating people had better responses from their workers. Training supervisors for leadership will help management and labor see their goals as compatible.

Employee Groups: What Motivates Them and How They Perform

By DANIEL KATZ

IN a machine age with specialization of function and with huge populations we survive through our ability to organize our mutual interdependence. The task of organizing people so that they can work effectively toward a group goal has become a major problem of our time. Yet the total amount of scientific research devoted to the psychological factors in group functioning is slight compared to the amount of research on problems of technology. In fact, we have forgotten that group organization is essentially a study of the psychological relationships between people. We tend to abstract from human relationships standard institutional practices and regard them as entities existing apart from human beings.

The theoretical and practical importance of more scientific study on group motivation and group functioning has led to the popular concern with human relations in industry and has given impetus to new programs of research. The Survey Research Center of the University of Michigan, with the aid of the Office of Naval Research, has embarked upon a series of studies designed to contribute to the knowledge of morale, leadership and performance in group activity.

This program of research has so far given major emphasis to three aspects of the problem: first, the determination of the psychological conditions that make for a high level of group performance; second, the dimensions of effective group leadership; and third, the dimensions of group morale or group motivation. In emphasizing the social psychology of group organization this program is in the tradition of the Hawthorne studies conducted by Mayo, Dixon and Roethlisberger. These earlier investigations demonstrated that group performance was related to the informal group structure existing in a plant—that is, in addition to the formal organization as shown by the organizational chart, there were patterns of inter-personal relationships that developed spontaneously and were directly relevant to the activities of group members. For example, a group of workers might develop informally among themselves a production standard beyond which members of the group did not go.

The research program of the Survey Research Center is, however, not concentrating upon informal group structure but is trying to cover many aspects of the working situation. Its major point of departure is in its use of advances in methodology in the field of social psychology. It relies heavily upon quantitative measuring of psychological variables. Worker satisfaction and motivation are systematically measured through interviews in which attitudes and responses are coded and scaled. These measures then can be related to similar coded material from managers and supervisors as well as to objective data such as productivity records.

A Study of Productivity Among Clerical Workers

The first study in the series was conducted in the home office of a large insurance company in depart-

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ments in which clerical workers service policies. In these departments there were parallel divisions carrying on the same type of work, using the same work methods and having the same flow of work. Since these divisions and the sections within them had group productivity measures, the differences in productivity between the work groups were a function of the social psychology of the situation and not of technology. High and low producing sections were matched on the basis of type of work. All employees in matched sections were interviewed intensively in sessions lasting between forty-five minutes and an hour and a half. The supervisors of these sections were also interviewed at even greater length. In addition, the managerial hierarchy was interviewed up to the fourth level of supervision.

The interviews, though of the open-ended or narrative type, followed a standardized form that was designed to get at specific dimensions of beliefs, practices and motives. The replies were recorded verbatim by interviewers and were reduced to quantitative scales by the coding department of the Survey Research Center. This coding process consists essentially of two steps: the definition of the major classifications of the material, and the determination of the specific categories under each major classification. To make sure that the assignment of answers to categories is not a function of the subjective judgment of one coder, a number of coders make independent judgments.

Importance of Supervisors' Attitudes

The major differences in high and low producing groups in this company were in large part related to supervisory practices and attitudes. The supervisors with the higher producing sections in general were following a more liberal philosophy of management. They were giving more attention to the problem of motivating their workers. Specifically, the first-line supervisors in the higher producing groups were under less close supervision from their own supervisors, placed less direct emphasis upon production as the goal, encouraged employee participation in the making of decisions, were more employee-centered, spent more of their time in supervision and less in straight production work, had a greater feeling of confidence in their supervisory roles and felt that they knew where they stood with the company.

These findings are consistent with the experiments of Kurt Lewin and his followers, which have shown that people are more effectively motivated when they are involved in decision-making and when they are given some degree of freedom in the determination of their own activity. These findings are consistent with the psychological principle that participation is an important factor in learning and motivation. Many of us can remember that as undergraduates we worked more energetically in our own extra-curricular activities than in formal courses.

Findings Contrary to Usual Belief

Nevertheless, these findings run counter to certain well entrenched beliefs as well as common-sense expectations about the type of work situation being studied. The usual assumption in routinized industry is that workers must be motivated by external rewards and penalties. It is even asserted that the average worker does not like responsibility or decision-making. The example is often cited of the worker who did not like the task of sorting good from bad apples because he had to make too many decisions. Moreover, in a regimented industrial situation it is assumed that the many rules prescribing behavior and the minimal degree of local autonomy make for a clear, stable and predictable situation. In this system people know what is expected of them, what they can and can not do, and from what source to expect a given kind of order. Within this type of culture it might be expected that the introduction of a small amount of freedom could produce conflict and uncertainty. Almost any system can be functional if it is internally consistent. *Nevertheless,* in the company under the study, the supervisors who departed from the logic of the system and gave their workers more freedom and responsibility enjoyed higher productivity.

Ideals of a Democratic Society

The answer can be found, in part, in the larger social picture. The ideals of a democratic society have been publicized in our culture for so long that they have gained more and wider acceptance. It is becoming increasingly difficult for people to accept the notion that they are mere cogs in a machine and that their aspirations toward self-expression and self-determination are unrealistic. There has been a slow evolution in the family and in the home so that children are brought up in less of an authoritarian pattern. In short, the old-fashioned philosophy of management ("Tell them nothing!" "You're not paid to think around here") is encountering resistance because of the social history of the past fifty years. It is common to find fault with the home training of the modern generation as the cause of most of our problems. This criticism, however, misses the essential point that changes in home training are but

one reflection of the total cultural change taking place since the French Revolution. It is interesting, incidentally, that an imaginative realization of the deep-lying significance of historical trends appears in industry itself. William Blackie, Vice President of the Caterpillar Tractor Company, in an address "Management and Human Relations," delivered before the Ninth Annual Congress on Industrial Health of the American Medical Association at Chicago on January 18, 1949 said: ". . . . the change which has been occurring in industry is not like that which occurred in the physical upheaval of the industrial revolution. It is a change in the mode of *thinking about people*—a change in *attitude*—becoming deeply planted and likely to be far-reaching in its consequences. It rests on an enhanced and enlightened appreciation that the inner strength of democracy is, as British Ambassador Sir Oliver Franks so well termed it, 'derived from three ideas—the value of the individual human personality, a real sense of belonging, and the basic like-mindedness of society which is the root of democratic life.' "

The results from this study also indicated fewer differences in worker attitudes between high and low groups than might have been expected. The only major difference was pride in work group, with the higher producing sections having more pride in their own work group. In this situation, however, we were not dealing with large differences between high and low groups. Moreover, many of the conditions under which the two groups functioned were alike. For example, they were all under the same wage policy, the same promotional policy, the same working conditions, the same company benefits. And finally, the personnel in these two groups were, for the most part, similar in background, education, aspiration and thus tended to have similar values.

One finding from this study suggests that group morale is not a unity but is made up of different factors. For example, intrinsic job satisfaction—that is, the satisfaction workers derive from doing the work itself—is definitely related to the type of work they are doing but is not necessarily related to their identification with the company for which they are working. Satisfaction with the company, however, seems to be much more a matter of their own personal values—that is, it depends on whether the over-all situation the company sets up is one in which they find satisfaction. Pride in one's work group seems to be related to actual productivity and to first-line supervision but it does not always transfer to a liking for the company as a whole. Satisfaction with wages and with promotion opportunities bears a relation to the expectations of the going rate for the industry and for the community.

Supervision and Leadership

The findings from this first study are being tested in a variety of different industrial situations. To date, the results suggest a number of additional principles concerning supervision and group motivation. The broadest formulation of the findings, as they concern supervision, emphasizes the differential role played by the leader in the work group situation.

In all the industrial situations studied, one common result is that the poorer supervisors, the men in charge of the groups with lower productivity or lower morale, tend to be the people who have not assumed the larger functions of leadership. They have tended to remain production workers or they have tended to take on the less important functions of the leader—the mechanical or institutional duties of keeping the paperwork in order and attending to the mechanical details of their jobs. They do not give sufficient attention to the planning function of their jobs. For example, in a study of maintenance-of-way sections on a railroad, the foremen in charge of the more productive groups did more long-range planning whereas the foremen in charge of the less productive groups tended to do little planning or to plan from hour to hour.

Another characteristic of the good supervisor is his appreciation of his job as one of understanding and motivating people. The simple measure of the amount of time given to personnel duties and to the broader aspects of supervision differentiates between poor and good supervisors. The weaker supervisor resembles his more able colleague in that he will make work assignments, keep his men supplied with tools and materials and enforce the rules; but he falls down in training his men for better jobs, keeping them posted on how well they are doing and, in general, motivating them through positive methods of personal recognition.

The failure of the first-line supervisor to take over the larger functions of leadership in the work group has, apparently, many causes. It is sometimes due to the promotion of old and loyal employees who have built up through the years habits for production but not for supervision and who have had no real training in leadership. It is right and proper for them to be rewarded for devotion to their production duties but the reasons for which they are being promoted do not necessarily insure the qualities that make for good foremen.

This suggests another basic factor—the lack of adequate training for leadership. Lack of proper training

may be a weakness of the foremen's boss or a weakness of the company program. There is some evidence to suggest that the formal training courses for supervisors have limited value. These courses may impart some knowledge but they do not change the fundamental attitudes of personality that may need to be changed for effective leadership nor do they necessarily produce in the foremen the actual skills that are needed for the job. Professor Norman Maier, who has developed a new type of training program for changing the personality orientation of supervisors, states in the *Industrial and Labor Relations Review* for April, 1948: "Unless a supervisor's attitudes toward the rights of employees are changed, training in new procedures requires him to act out a role. Human relations techniques then become a cloak to be worn when problems arise. Thus training which does not change fundamental attitudes becomes nothing more than a sugar-coating for the supervisor, and this coating is either recognized as such by employees or soon wears off."

In interviewing supervisors it is not uncommon to find that the person interviewed talks convincingly and is familiar at a verbal level with principles of human relations. When he is questioned more specifically about some of his own tough problems he frequently shows that he has not translated these principles into operating skills. There is growing recognition of the need for the type of training that will not only impart information but will also change attitudes and develop skills.

Another difficulty of the first-line supervisor is the change that has occurred in his institutional role over the years. With the growth of union organization and with the development of personnel departments he no longer has hiring and firing functions and in general has lost his former range of authority. This has been accentuated by the fact that as men move up in the company they often take important parts of their old jobs with them. This further increases centralization of power at the top.

The foreman, moreover, is familiar with the more simple leadership of the older situation that was one of merely giving orders. His new position calls for a redefinition of his role. The part he must play now to be an effective leader calls for a radically new type of functioning. He must now conceive of himself as a true rank-and-file leader, not as a company autocrat. As a leader of his own men he needs to be a capable representative of their true interests to his superiors and he needs to involve them in the decisions remaining with him. He still has the unique position of being the most important communication link between management and employee. He still has opportunities to see that the over-all rules of the institution are translated into action at the local level with wisdom and flexibility.

Making Use of Research Findings

One new type of project the Survey Research Center has been carrying on has been the utilization of research findings. The results of research studies should not only add up to a fund of scientific knowledge. There is also the problem of making use of them in situations where they can do the most good. Such use, however, involves changing the habits and attitudes of people if company practice and policy are to change. The study of how research results can be used to change people is both important in itself and capable of sharpening our knowledge of the principles discovered in the original surveys.

In one concern where a large-scale survey had been made, the results were introduced into the company in an effort both to help solve administrative and personnel policy problems and to gain insight into the process of social change.

The procedure followed in this experimental effort to put research findings to use made four major assumptions:

1. In hierarchical structure it is important to start the change process at the very top. Unless top management is interested and favorably inclined toward the change, it will be difficult to produce any lasting effect.
2. It is necessary to involve two or more levels of the hierarchy at the same time. This insures the continuing interest of the line organization.
3. Change will come about more readily if the line officers of the company become involved in the research process itself. This does not mean that they replace the research expert but rather that they consider the meaning of the first results and make suggestions about the type of factors that seem to be likely causes. This, then, gives the research analyst the opportunity to work out additional cross tabulations for further discussion with the company people. This process has two advantages: (a) It takes problems out of their traditional and, perhaps, emotional context and puts them in an objective framework. The company officers are forced to give full attention to the reasons for some of the operating difficulties in the human relations field on the same basis that they regard problems on the engineering side. (b) The suggestions of the line

officers are valuable to the research worker since they represent long experience with the immediate problem. The research analyst can therefore do a more complete job in working out the implications of his data.

4. The material should be introduced in group sessions by the line people in the company so that the group of subordinates can become involved, its thinking stimulated and its potentialities tapped.

In carrying through the above procedures many of the departments of the company have become intensely interested in the research findings, in discussing the causes for weak spots in group morale and in finding remedial measures. In some cases the group process by which a department head involved his workers helped to solve the problems. It is still true, for example, that much by-passing occurs in industry and that the inability of higher officers to permit their subordinates to carry out delegated responsibilities can disrupt morale. By a group consideration of morale of subordinates, the officer who habitually by-passes his men is brought into communication and contact with them. He discovers to his surprise that his subordinates know a lot about the weak morale spots in the organization and even have valuable suggestions for improving the situation.

Studying Labor-Management Relations

Still another type of study in the industrial field concerns the area of labor-management relations. Many universities have now set up industrial relations sections staffed largely from departments of economics. These organizations have been doing excellent work on labor and management problems and the Survey Research Center of the University of Michigan plans to supplement this growing body of research with quantitative studies of workers and management, beginning at the local or plant level. It is true that industrial conflict and industrial peace need to be understood in terms of the structure of the national organization of labor and of industry, but the day-to-day contacts of labor and management in a given plant also add to our knowledge of labor-management relations.

Within the broad framework of policy determined by strategic patterns of industry-wide organizational relations of union and management there will be plants in which the local unions get along well with management and plants in which management and the local unions are at swords points. Some of these local differences may reflect the pace-setting or pace-following nature of a given company, but some of them may be related to the immediate social psychology of the situation.

The Survey Research Center has thus far completed one study in this general area of labor-management relations in which the emphasis was placed on the local situation. The foremen and their supervisors, as representatives of management, constituted one group for study. The union stewards and their superiors constituted another group and a cross-section sample of rank-and-file workers constituted a third group. A series of questions were directed at the following objectives: (1) To what extent do these three groups accept management's goals and values? (2) To what extent do these three groups accept union goals and values? and (3) To what extent do they see the union and management goals and values as compatible?

These measures of identification with union and management were then related to, first, data obtained on the way in which foremen and stewards handle the men under them; second, the degree to which foremen and stewards, working in the same department, get along together; and third, the job satisfaction of the workers.

More Agreement Than Disagreement

The analysis of the material suggests that within the plant studied there is much more agreement than disagreement on basic issues. The majority of workers, of stewards and of foremen tend to see the goals of union and management as compatible. In general, the foremen tend to have more doubts about the ability of union and management to get along than do stewards and workers. The ability of foremen and stewards in a given department to work out a stable pattern of relationship has an important influence upon the attitudes of the rank-and-file workers. The departments in which the power position of the steward is relatively great is not necessarily the department in which there is less identification with management. Identification with management seems to decrease as the stewards and foremen in a given department are in conflict about their power roles.

The findings from this study suggest that, at local levels, acceptance of company and union goals and the degree of perceived conflict between them does bear a relation to the inter-personal relationships of foremen and stewards and workers.

The research program of the Survey Research Center on human relations in group organization is still in its beginning stages and the plans for its development envisage research in many different types of industrial situations, as well as field experimentation in which find-

ings are put into practice on an experimental basis. Thus far the results suggest the importance of a new orientation to problems of group organization—an orientation along the lines described by James Worthy in his thoughtful article in the March, 1949 issue of this journal in which he observed: "The purpose of a human organization, whether business or otherwise, can only be defined in terms of the people in it, because unlike the component parts of a machine the people who comprise a human organization are something more than just parts of that organization. They are flesh-and-blood men and women, with sentiments, ambitions and needs of their own which range far beyond the confines of the organization of which they may be a part, and the extent to which they serve the needs of the organization willingly and enthusiastically depends upon the extent to which the organization serves their needs as sentient, aspiring human beings."

Harry Arthur Hopf

DR. Harry Arthur Hopf, who died at his home in Ossining, New York, on June 3 at the age of 67, was a prominent consultant in the practice of management. He was among the earliest and the most active members of both parent societies of S.A.M., the Taylor Society and the Society of Industrial Engineers. The S.A.M. made him a Life Member and in 1947 awarded him the Taylor Key. He was one of the elder statesmen of the management movement. He possessed splendid qualities which contributed to his professional stature. The fact of English birth and early European study helped to make him internationally minded and continuously devoted to a view of professional management as extending beyond the confines of any one country. This outlook prompted his organizing interest in the National Management Council and in the International Committee on Scientific Management from which body he was awarded its Gold Medal.

Further, he was possessed of an analytical mind of great penetration and persistence; and his critical and constructive powers were put at the disposal not only of scores of clients but of numerous important public bodies at the Federal level. He was insistent always that his professional concern was with the effective economic functioning of our institutions viewed in the public interest. To this underlying philosophy he devoted his labors without stint and with unremitting devotion in a frame of statesmanship that emerged also in his published utterances. His philosophy of the optimum, for example, was an instance of a combined social and technical concept that, in his interpretation, inspired both an approach and a kind of analytical exploration that proved productive in practice and stimulated his creative thought on all operational problems. Although many and illuminating, his writings unfortunately were never allowed to include the more extended elaboration of his ideas into several longer treatises that he had to leave unfinished—an irreplaceable loss to the scholarship of management.

His intellectual grasp also prompted the creation of one of the finest management libraries anywhere available—catholic, liberal and international in its inclusive coverage.

Here was a life committed to a rare combination of practice in affairs, of profound scholarship and of persistent concern for articulating and extending professional management organizations to advance public understanding and use of a developing arm of administrative science and service in the public good.

A career as rich as this one in variegated efforts and pioneering attainments gives pause to everyone mindful of its meaning and value. Others may well be heartened and aroused to greater zeal by such a record. Here was a man; here was a life, crowded with usefulness. Here was a professional career worthy of emulation.

ORDWAY TEAD

The Federal decentralization policy begun in 1947 has been based on the scientific management principles of standards, inspection, control and cooperation — principles that the Hoover Commission endorsed and that are indispensable wherever industry decentralizes.

Decentralizing Personnel Management

By MARY CUSHING NILES

EFFORTS of the Federal Government to secure decentralized personnel operations have been based on the concept that the primary responsibility for personnel management rests on those who plan, direct and supervise the work of others. Carrying out such a philosophy is relatively easy in a small organization, but it becomes a formidable job in an establishment with employees in every county of the United States, in territories and possessions, in occupied countries, and in many foreign nations.

The idea of decentralization based on standards and subject to controls was explicitly covered in the 1947 executive order that set the framework for Federal personnel management. The guides developed to aid the orderly application of these principles are important to management people, first, because industry also is looking for more positive guide lines for decentralization and, second, because the Hoover Commission has made these principles the cornerstone of its recommendations for the reorganization and modernization of the Executive Branch of the Federal Government.

The Federal Establishment

Management people readily appreciate that decentralization is a necessity for effective action in a situation where approximately sixty-five Federal agencies employ more than two million people. One-tenth of these employees work outside the continental United States, less than one-tenth in Washington, and the remaining four-fifths in every state and county in the nation. The process of decentralizing personnel management to match the geographical dispersion of activities has been slowed down by the fabric of law and regulation designed to protect the merit system. A civil-service mechanism originally set up in 1883 to drive out political patronage had to be completely revamped in order to fit the practical working situation resulting from government expansion in the great depression and in the war emergency and from a size which is more than twice pre-war numbers. Employment has now leveled off at about two-thirds of the war-time peak. The far larger Federal establishment carries on the much expanded functions, primarily of military, veteran, overseas, postal and revenue activities.

Some idea of the present scope and distribution of functions is conveyed by a few comparative figures as shown in the accompanying table.

The Background

The pattern for personnel management set by executive order of the President was told in MODERN MANAGEMENT in July 1947, by the White House Assistant who had given leadership to its development and issuance. He is R. R. Zimmerman, at that time Administrative Assistant to the President on Personnel. Executive Order 9830 was a timely expression of a trend toward decentralization. But more, it applied the principles of scientific management to the handling of personnel management for the Federal service. It went to the heart of the decentralization problem by stating that "personnel management is the responsibility of all who plan, direct and supervise the work of other Federal employees." At the same time it laid down the principle that "personnel management methods should be sufficiently consistent for the Federal Government as one employer, but suf-

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FEDERAL EMPLOYMENT

Number of Paid Employees, Full-Time and Part-Time, in Thousands

Agency or Department	June, 1939 Cont. U.S.	June 1945 Cont. U.S	June 1945 Overseas	June 1945 Total	May 1949 Cont. U.S.	May 1949 Overseas	May 1949 Total
Post Office	295	378	1	379	513	2	515
Navy	85	694	59	753	314	38	352
Army	110	1,147	734	1,881	313	60	373
Air Force	—	—	—	—	140	37	167
Veterans Administration	37	65	—	65	199	1	200
Treasury	68	96	—	96	91	1	92
Agriculture	107	81	1	82	77	2	79
Commerce	15	67	2	69	42	3	45
Interior	50	40	5	45	48	6	54
State	6	4	7	11	8	13	21
Subtotal	773	2,572	809	3,381	1,745	163	1,898
All others	152	343	46	389	188	24	222
Total	925	2,915	855	3,770	1,933	187	2,120

ficiently flexible to meet the diversified conditions of the Federal service."

The responsibility for personnel management, therefore, lies upon the President, the agency head, and the successive managers, right down to the individual supervisor face-to-face with his employees in the workplace. In this responsibility the personnel people advise and assist. On the top level, the President has a staff arm, the Civil Service Commission, which was directed by him to exercise leadership and give assistance to the agencies in all personnel matters. The President also required the Commission to delegate to the agencies, to the fullest extent practicable, the authority to act on personnel matters, but only on the basis of standards and subject to inspection. Moreover the standards were to be worked out in consultation with the Federal agencies. They in turn were directed to delegate personnel actions to the greatest degree compatible with efficient administration.

Management readers will recognize the scientific management principles of standards, inspection and control, and cooperation. The fourth principle of scientific management—research—was specifically mentioned in the draft of the executive order but in the legal clearances it was deleted as unnecessary. The concept of research as the basis for standards is well recognized, even though the amount of personnel research now being conducted is slim because of the drive for economy.

Standards and Research

Standards for many types of personnel matters are set by the Civil Service Commission for the entire Federal service in consultation with the agencies. On subjects lying within the administrative discretion of the agencies, such as training and employee relations, agencies set their own standards. On such matters, agencies frequently reach a consensus through common study and agreement by the Federal Personnel Council, which is the interdepartmental committee of the directors of personnel of the Federal Government together with representatives of the Civil Service Commission and the Bureau of the Budget.

The Commission has gone far in setting standards in many fields of activity. In connection with job evaluation, specifications for more than 7,600 positions common to two or more agencies have been printed for use in allocating jobs to the proper grade and salary. Agencies in turn have prepared specifications for positions peculiar to their own organizations, such as soil conservationists. Similarly, qualifications of persons to fill the jobs are being developed by original selection or by promotion. The Commission and some of the agencies are also conducting research on examining methods for ascertaining how well individual applicants meet the standards. The more realistic the qualifications and the better the testing process, the more likely are the best qualified people to win top places in open competition.

Millions of dollars have been saved in recent years through standardization of procedures and records. Paperwork, like a garden patch, must be weeded continually.

Government-wide policies, standards and orders cover many other personnel matters, such as lay-offs and merit ratings.

The necessity for constant improvement of standards is well recognized in Federal circles. As King Hathaway said many years ago, a standard is "a criterion set as a result of scientific investigation, considering the present stage of the art."

Inspection

The inspection activity is a recent development in government, although it has been practiced for some time in banking and insurance. Bound as government is by a network of laws, inspection is an essential counterbalance to decentralization of responsibility. Not only must the laws be carried out, but the employee and citizen alike will complain if there are substantial deviations on such matters as pay in different agencies or locations.

Conformity to laws and regulations used to be secured by ceaseless review of papers. Take, for instance, a request for a promotion in a field station. Before World War II, the papers would be written up and successively reviewed in an area office (if any), in a bureau office in Washington, at the departmental office, then at the Commission, and back down. Instead of this rigmarole, the postwar regulations permit in the usual case that an agency with decentralized practices will authorize the local station to make ordinary promotions on their own, provided qualifications are properly met. When the Civil Service Commission inspector makes his rounds, he spot-checks promotions and readily discovers whether the local station is meeting the standards. Thus tons of copies are no longer prepared and shipped to Washington. Instead, the inspector can work with the local people, on the one hand sharing his knowledge of how personnel actions should be done, and on the other hand gaining for the Commission an objective appraisal of operating conditions.

Cooperation

The program rests on joint responsibility of the agencies and the Civil Service Commission. The Federal Personnel Council, with its thirty field councils, forms the natural mechanism for consultation and joint effort for improvement. The directors of personnel of headquarters offices combine their thoughts and suggestions with one another and with those of the Commission and the Bureau of the Budget through the central Council. Similarly, field managers and personnel people work with the regional offices of the Commission in developing many constructive ideas for improvement and economy of personnel activities. The Council system is only ten years old but it has resulted in sizable savings in paperwork alone.

Decentralization—The Heart of the Program

The heart of the concept of Federal personnel management is *decentralization with standards and control.* Paraphrasing the *Guide to Decentralization of Personnel Management,* which was developed by the Council, managers in charge of operations determine through their handling of people the quality and economy of services to the public as required by the Congress. The most important personnel work is done at the workplace by supervisors face-to-face with their workers. Employees must be placed and trained and motivated so that they will do a superior job. The test of good personnel management lies in multiplying the situations where this outstanding type of accomplishment is obtained. Personnel people therefore must be more than good technicians. They must help supervisors to understand and work with the basic human drives leading to high productivity and worker satisfaction.

This kind of personnel management, of course, is performed in the local office, arsenal, shipyard, warehouse or hospital. It may be performed well, indifferently, or not at all, but it cannot be carried out at headquarters removed from the scene. Staff assistance, whether on the spot or in some other place, can greatly help such accomplishment.

Obstacles to Decentralization

Many kinds of personnel decisions and the record-making connected with them, however, are performed in Federal offices removed from the scene.

One of the greatest obstacles in securing the desired degree of decentralization is the need to discover the conformity that the public and employees demand and that is required also by law.

Every administrator who has decentralized his operation and has given field people the scope to reach their own decisions and carry them into effect knows the difficulties he will face if something goes wrong. The press—and even more important—members of Congress will be after him asking why does this or that happen. "Is it true," he might be asked, "that a professional woman with twenty-six years of experience has been let go, and that a man doing the same work remains, even though he has only one year of service?" The administrator just has to sit back and say, "Yes, we are reducing personnel and quite possibly it has happened. Of course, we will do everything we can to find another position in our organization for that woman—that is, if she is as good as you say she is—and quite likely we will find something for her, probably at a lower grade. But you know it is the law that veterans have preference for

retention. I will be glad to look into the case and let you have the facts."

When the conversation is concluded he must get on the wire and find out the particulars. It is far more convenient if, while he is talking with the member of Congress, his secretary is getting the facts from down the hall.

The necessity for public accountability restrains many an administrator from delegating down the line to the field. Since he has to take the rap, he likes to have the responsible party as close to him as possible.

An even more striking illustration is in the discharge of an incompetent employee. Contrary to public impression, it *is* possible to fire a person, but it takes time and patience and plenty of facts, especially if the individual is a veteran, as are more than half of the employees of the government. The record must be full and tight, and reasons must be furnished to the employee, who quite properly is allowed adequate time to reply. The agency then decides to fire him and gives him, if he is a veteran, the thirty days' notice prescribed by law. Then the appeals begin. The employee, bolstered very likely by his union and his veteran organization, uses the grievance machinery. Several ranks of management listen and deliberate. The man who appointed him is only the first involved. There may be the head of the field station, of an area office (if there is one), of the bureau or service, and of the agency, each of course with his own advisors and helpers.

Let us say the veteran loses his grievance. Then he has an appeal by law to the Civil Service Commission. The regional office holds a hearing, complete with witnesses and records, and the appeal may then be carried to Washington. Imagine the repercussions if the Commission decides against the agency and if after all this maneuvering the employee must be restored to his position or a similar one, with back pay. If the Commission rules against the employee, very likely he will go to see his Senator or Congressman, who then demands reasons that in turn have to be submitted and defended.

The Hoover Commission recommended that there be established a simple, clear-cut method of dismissal of the incompetent employee. Some of the experts say the method suggested would even add links in the chain. The research for the simple method is being intensified, with the desire to strike a balance between the efficiency of the service and defense of the employee against arbitrary or inequitable decision.

Small wonder, however, that under present conditions the chain of command does not want to take on the burden of starting one of those dismissal actions unless the case has been reviewed at several levels before even the first notice is issued. Here again, public accountability and the desire to avoid criticism exercise a restraining influence on delegation.

The Degree of Decentralization

The desirable degree of decentralization in any specific organization can be established only after careful study of its nature and mission. The problem is different in a small tightly knit organization with only a scattering of field offices from that in a department conducting many kinds of operations. In the latter case, the various constituent organizations generally run their own programs with a coordinative and service staff in the office of the Secretary.

In vast organizations like the Army and Navy, size of organization alone has forced decentralization into services and thence into local areas. The man in the field station, then, is responsible first to the service headquarters, as for instance, the Signal Corps, but realizes that he must be governed also by the policies and procedures common to the Department of the Army as a whole, and now to the entire National Military Establishment. The existence of these intermediate layers of supervision greatly complicates the situation, yet it is practically unavoidable if reasonable consistency and adaptability are to be obtained. Visualize a holding company that, for public relations reasons, wants to handle all firings consistently. The policy set at the top must be filtered through the subsidiary company, which must amalgamate the policy on firings with certain other policies on which it may have more freedom, as for instance, promotion.

The manner of organization also affects decentralization. The manager of a mortgage loan office, for instance, may already have a large responsibility for committing the agency to underwrite loans that fall within certain limits. He would then chafe if he could not make his own selection of a stenographer. On the other hand, offices that in themselves are more or less routine in nature may not be equipped to weave their way through the complicated laws and regulations and conduct their own personnel operations without review.

Even more important is the relation of personnel management to other staff functions. If such matters as fiscal accounting work are tightly tied into headquarters it is correspondingly harder to provide for autonomous handling of personnel.

Plans for the future are also a conditioning factor in decentralization. A contracting organization may need to pull the decisions back into a regional or central

office in order to prepare for closing down or greatly reducing its local offices. A change in type of program or an expansion may force decentralization of hiring, for instance, in order to secure in the locality the kinds of people who can do the new jobs.

Actually, however, such decentralization requires evaluation of the ability of the local station to carry adequately the burden of decentralization. There must be available one or more persons with sufficient skill and training to insure meeting the agency's requirements and complying with the mass of laws and regulations.

Pricing of jobs, for instance, is based on a job evaluation system with specifications for practically every type of position. The assignment of a job to a given grade bearing a certain salary is therefore hedged about with many safeguards to prevent overgrading—often applied at a higher organizational level, sometimes in Washington.

Appointment Requirements

Many requirements also surround appointment. In the Federal service, many an employee is selected sight unseen. He is chosen ordinarily from among three on a list of those who passed the examination, ranked by their scores as weighted by veteran preference. (The Hoover Commission recommendations would introduce more flexibility.) Moreover, people cannot be transferred or promoted unless they have the "qualifications" for the new position. Such qualifications are spotted from the description of experience and education on the lengthy application form. The appointment or promotion involves quite a ritual in which many legal requirements, such as proof of state residence, must be met. In government, the officer who certifies a payroll is himself personally liable if an error has been made in complying with the law. For instance, the Civil Service Act requires that not more than two persons of one family, living under one roof, shall work for the Federal Government. If the appointing officer fails to exercise due care in ascertaining that fact, not only is the appointment illegal, but also any salary payments made are likewise illegal.

Decentralization is closely related, in such a picture, to factors of economy and efficiency. Obviously it would not pay to train someone to go through all the routine of legally appointing employees unless a sufficient number of appointments are made in the course of a year to justify the training. Work load thus is a key factor, but the scale may be tipped by the physical distance from another unit which can process appointments or by the kind of communications available between offices (such for instance as a direct wire used in connection with the program of the agency), or even by the staff and travel funds available to go to the locality to give the necessary help and training at the beginning. On the other hand, an office may be denied the responsibility for making a final job evaluation because it is near another office or because it is so far away that considerable travel would be required to secure adequate instruction.

Delay, however, is also costly and a considerable time interval in getting clearance may result in losing satisfactory recruits and holding back a program. Field people continually stress the expensiveness of delay in terms of money. Possibly there is an even larger but hidden cost in employee dissatisfaction when promotions and raises are withheld while an office far away appears to dally.

Decentralization Implies Staff Supervision

Decentralization in any large organization with units geographically dispersed must be carefully thought through in terms of the consistency required. If the horse can be given his head, you don't hold a tight rein on him.

In a complex organization where considerable consistency of most personnel activities is a necessity, the experience of the Federal Government in the last few years has demonstrated that certain factors are needed in headquarters supervision. Like most operations requiring training—safety, for instance—the initial transition requires staff consultation and travel. As one field council put it, "More training, less auditing."

The Council's Guide spells out the need for supervision in approximately these terms:

1. *Direction.*
   a. The personnel objectives are defined in relation to program and organization. This is done by the central personnel office which is to give staff aid and oversight to the decentralized operation.
   b. Coordination of the personnel program with other management functions is provided.
   c. Basic policies and standards are developed and the necessary basic procedures established. These need be defined only so far as consistency is needed. If it is not important to have the same handling in different localities, then the norms need not be set forth. Latitude within the policies laid down should be encouraged if managers are to use their heads.
   d. Controls are worked out and put into pro-

cedure. Certain records must be required to insure orderly handling and control reports must be installed.

e. Communications on a day-to-day basis are worked out.

f. Research is conducted as a basis for standardization and improvement of operation. This involves also the maintenance of contact with other organizations and cooperation in joint research and investigation.

2. *Assistance.*

a. Training programs are developed and conducted in order to provide basic instruction to those who will conduct personnel work in the field.

b. Instructions and guides are prepared. Certain procedures may be suggested for the sake of saving time and effort, but should not be prescribed except as required for consistency. Unnecessary detail should be avoided. Instructional material should be arranged so as to facilitate ready reference and easy maintenance on an up-to-date basis.

c. One of the greatest aids to a decentralized program is face-to-face contact either by field people coming to headquarters or vice versa. Well planned visits lead to better functioning of programs through greater mutual understanding of problems and suggestions. One of the handicaps in good personnel management in a number of agencies is the limitation on travel funds, which are appropriated separately.

d. Advice on specific problems.

3. *Control.*

a. Certain powers to act may be reserved to headquarters. In many Federal agencies, key field jobs are evaluated and filled by the headquarters office or subject to its prior approval. Only so is it possible, for instance, to effect a nationwide promotion plan.

b. Often the handling of serious misconduct or suspicion or disloyalty, and severe disciplinary actions are authorized only by headquarters.

c. It is customary that employees may bring complaints and appeals to the head of the agency or his immediate representative. Thus equity is sought and administrative control exercised against abuse. Similarly, complaints from members of Congress and from the public serve as a checkrein.

d. If abuse of delegated powers by local officials is serious, authority to take certain types of actions may be withdrawn. In some instances, the Civil Service Commission has suspended authority delegated to an agency until the situation has been corrected.

e. Standards of cost and of staffing in relation to workload are developed at headquarters. Local stations with higher costs are brought into line.

f. Highest awards for superior accomplishment or for outstanding employee suggestions also are made by headquarters. Lesser honors frequently are conferred locally, but in the interest of comparability there is national competition for outstanding recognition.

4. *Check-Up.*

a. Routine reports are evaluated, and special reports required.

b. Complaints and grievances are analyzed.

c. Field conferences indicate problems and performance.

d. Local operations are inspected on periodic visits by the Civil Service Commission inspectors and by representatives from agency headquarters.

The inspection pattern, naturally, should reflect the program objectives. First, an analysis of a field unit's personnel work shows the degree to which the laws and general regulations are observed. Second, conduct of all phases of the personnel program is evaluated. Third, help is given in better meeting the program requirements. The Civil Service Commission makes this type of field audit, but so far has been forced for budgetary reasons to place its major emphasis on inspection for conformity to law and regulation. However, most of the inspectors have broad experience in personnel management and their visits are productive of stimulation. A number of departments also conduct their own inspections, which naturally cover more thoroughly the matters specifically within the province of the agency's undivided responsibility. The whole inspection program is so new in government that much progress is expected to be made in the next few years.

While supervision has been emphasized, another factor is equally important, namely, joint effort. Where it is the custom for field people to participate in developing policy and procedure, naturally there is a more spontaneous cooperation in carrying them out when issued. Many agencies seek field comment on proposed steps. Suggestions for improvement may also originate in the field and be further developed by securing reactions at other locations.

Specific Steps

Out of the experience and thought in some of the agencies which have decentralized their personnel management have come specific suggestions to organizations which have gone a lesser distance.

Often there is an illusion of decentralization. Or full advantage is not taken. The actual personnel work may be done in the field, but may be sent into headquarters for final decision before it goes into effect. Or the actual decision may be made in the field, but it must first be rubber-stamped by the headquarters, thus interposing delay and increasing cost. Or the commitment may become binding in the field, but truckloads of records are hauled to headquarters for audit—a much less effective procedure than inspection of a good sampling of actions on the spot.

The Council has urged that placing positions in salary grades, for instance, should be done at the local level when (1) A standard job description fits the position; or (2) When general specifications have been prepared by the Civil Service Commission or the agency; or (3) When the manager or his assistant has competence as a job classifier. Exception is suggested for key positions or those above a certain salary. These would be referred to a regional or headquarters office for approval.

Likewise, decision for appointment should be lodged at the local level, with similar exceptions, when (1) The manager or his assistant has sufficient knowledge of the appointment rules to assure compliance; and when he knows sufficiently well the appropriate sources of selection; and (2) The appointment is for a position which would not ordinarily be filled by promotion from other locations, or when promotion is made after appropriate consideration of all candidates, including those from other offices; and (3) Appointment is made from a civil-service register; or (4) When a temporary appointment is made and the local office can assure compliance with the regulations (including veteran preference).

The Guide closes by advising agencies that are planning further decentralization to determine its extent in the light of their needs; develop the instructions that decentralized offices would need; give training to people in the decentralized offices by conference or by field visits; initiate decentralization of simpler and more common types of actions; inspect field offices to determine the quality of operation; keep on decentralizing until the limit for practical and efficient operation is reached; follow up and inspect regularly; and furnish further training and make adjustments of organization, policies, methods, and people in accordance with inspection findings.

Efforts and Prospects

Substantial effort has been put forth to gain the administrative and managerial advantages of decentralized personnel management in the Federal Government. After the President issued the executive order in 1947 providing for decentralization, the Civil Service Commission and the Federal Personnel Council secured full discussion of the implications in the thirty field personnel councils throughout the country. When field managers and personnel people saw the shape of the new pattern, which was along lines many of them had been seeking, there was not only acceptance but a demand for decentralization. The Philadelphia Council immediately pointed out the varying practices regarding decentralization and asked that a guide be established. The pooling of experience of the Commission and of the leading decentralized departments with the needs of some of those not yet decentralized resulted in the Guide referred to. The first draft was criticized by the agency headquarters and by the field councils. The Guide was then adopted by the Council, endorsed by the Civil Service Commission, and in May, 1949 called to the attention of all agency heads by the White House, with the request that they review the extent of decentralization and evaluate what further steps should be taken.

The principles established, of joint agency and Civil Service Commission responsibility for the conduct of personnel administration within a framework of law; of standards based on consultation; and of inspection for conformance, evaluation and assistance were given tremendous impetus by the personnel management report of the Hoover Commission. That report urged the strengthening of staff leadership in personnel matters, both by the Commission and by the personnel offices. In some respects, it urged that much more direct responsibility be placed on the agencies. For example, it held that the responsibility for recruitment and selection of workers should be vested in the agencies, not in the Commission.

The Hoover Commission found much fault with things as they are. Nevertheless, the report essentially furthered greatly the pattern already in the making. Most but not all of the additional steps require changes in basic legislation. Bills to carry the recommendations into effect have been introduced in both the Senate and the House (Senate Bill 2111-McCarthy and House Bill 5181-Hoffman). It appears clear at this writing that the

various agencies in reporting on these bills strongly favor the intent but suggest modifications of language in the interest of operating practicality.

It is naturally a matter of pride to many Federal personnel people that the pattern that they hammered out around the Council table and that they have been trying to put progressively into effect, was carried even further by the Hoover Commission. In fact, a careful reading of the report on General Management shows that in all phases of Federal management it urges these same principles: executive accountability, standards to be set by central staff agencies acting by direction of the President; competent staff people in the agencies to help managers make their decisions in the light of the standards; and inspection to see that standards are applied.

The similarity between the Hoover recommendations and the Federal personnel program of 1947 is hardly accidental. In the first place, the personnel pattern was consciously based on principles of scientific management that had been demonstrated as valid in many organizations, both public and private. In the second place, former Civil Service Commissioner Arthur S. Flemming was one of the architects of the pattern and later became one of two Executive Branch representatives on the Hoover Commission. When he resigned from the Civil Service Commission in August, 1948, the Society for Advancement of Management conferred on him a special award for his distinguished service to the field of management.

There is still another reason why many Federal personnel people are keen about the pattern of decentralization, even though many obstacles are encountered in putting it into effect. As R. R. Zimmerman stated at the time the order setting the pattern was issued, this framework makes possible far more effective human relations. Only when decisions can be made near the scene where the work is done can the human element be taken adequately into account. The end result sought is a service that will seek, attract, select, develop and retain, on the basis of merit, the best qualified personnel to conduct the work directed by the Congress; and will secure such morale and team spirit that the work will be performed in an effective manner. There is a growing recognition that a personnel program is to be gauged by its kindling of the will to work and of the urge for teamwork in the minds and hearts of men.

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Book Reviews

Testing Programs

Personnel Selection, Test and Measurement Techniques, by ROBERT L. THORNDIKE. 358 pages. New York, 1949: Wiley. $4.00.

THIS is an excellent text on the subject of test and measurement techniques as applied to the selection of employees. The book was probably intended primarily for use in the class room, but any personnel worker will find it interesting and valuable reading. A background corresponding to about one year of work in statistics is necessary if the reader is to get full value from the chapters discussing statistical techniques.

While the book is largely the outgrowth of Professor Thorndike's four years of service in the Army Air Forces during World War II and is based on *Aviation Psychology Program Report Number 3, Research Problems and Techniques,* a report prepared under his supervision, it is by no means just another book about the aviation psychology program. Professor Thorndike has endeavored, with considerable success, to take what he learned in his war-time experience and show how it may be applied in developing a program of personnel tests in private business.

Chapter I outlines briefly the necessary steps in the development of test procedures. Chapter II is one of the best brief discussions of the first step, "Job Analysis," this reviewer has seen. Chapter III, "Test Selection and Invention," also is excellent, but leaves the reader with the feeling that almost too much has been attempted in limited space. This lack is, to some extent, corrected in Chapter VIII, "The Analysis and Selection of Test Items."

In Chapters IV, V, VI and VII, statistical techniques involved in determining the reliability and validity of tests, and in combining single tests into batteries, are discussed in detail. The personnel worker who reads these chapters may feel that there is greater refinement of statistical procedure than is justified by the accuracy of the basic data usually available in any except large organizations. Professor Thorndike recognizes this, however, and explains on Page 172 how, to some extent, it can be corrected.

The discussion in the final chapters of the administration of a testing program is more fully applicable to large organizations, but contains a number of suggestions that any personnel worker can use whatever the size of his program.

GEORGE D. HALSEY

(Mr. Halsey, a frequent reviewer for this magazine, is himself a writer on personnel matters and is Personnel Officer for the Farm Credit Administration in Columbia, S. C.)

Union-Management Relations

The Union Challenge to Management Control, by NEIL W. CHAMBERLAIN. 338 pages. New York, 1948: Harper. $4.50.

PROFESSOR Chamberlain, Research Director of the Labor and Management Center of Yale University, has made in this book a keen diagnosis and penetrating analysis of the problem of the impact of collective bargaining on managerial authority and functions with its legal, economic, technological, and political implications, in large corporations.

Emphasizing first the legal and functional nature of management, the author discusses the penetration of the union into the direction, administration and execution by management, both in theory and practice. Not forgetting why management as people act as they do, he gives a broad positive definition of collective bargaining as "an expansion of individual strength" rather than a "negative compensation for individual weakness."

Discussing the degree of union penetration in the management areas of finance, personnel, production, distribution, and coordinate activities he stresses that the deepest and widest penetration is in personnel practices, and that, in the opinion of the union leaders, any managerial decisions or authority threatening the security of the workers must be "regulated." The author found that most of management and union leaders believe that more training will help correct some of the misunderstanding between management and the unions.

While reviewing the boundaries between union and management functions, the reasons for them, the perspectives of interests, the author gives the various viewpoints of the responsibility and authority for functional integration and the requirements of such integration.

He concludes that "the roles of management and union in the large corporation cannot be defined by a differentiation of spheres of mutual or exclusive interest in the operation of the business. Solution of the problem of union-management relations must be based on a functional integration which conceives of the enterprise as composed of various interest groups and builds its organization around them and encompassing them" (Page 267).

This conclusion is supplemented in the appendices by examples of union penetration in managerial areas in automobile companies, steel, meat packing, and public utilities.

This reviewer's general impression was that the book is a good presentation of the pro's and con's of the union's challenge to management control. It should make those interested in management, unions, and industrial relations think more analytically of this problem.

It does not give *the* answers to the problem, but hints at possibilities. Although the introduction and preface indicate that the book is an analysis and diagnosis rather than a prescription, the author seems to indicate his leanings toward giving prescriptions by such statements as "Freedom and authority to operate the business there must be, of course, but such freedom

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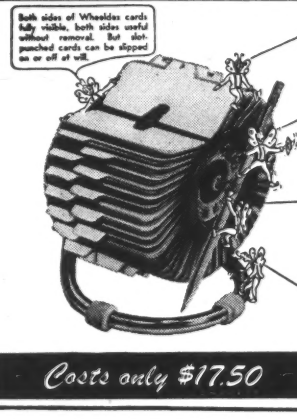
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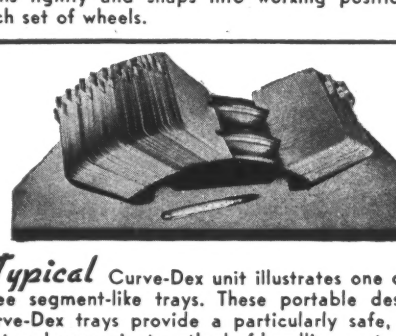

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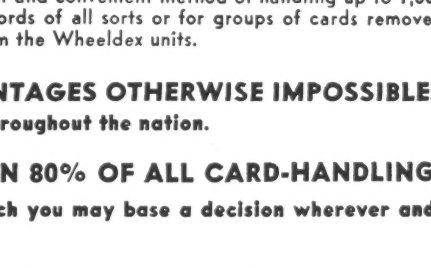

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and authority may operate within a framework of limitations and may in some aspects also be shared" (Page 52).

The book seems "short" on the methodology of the investigation, and especially the basis of the author's statements such as "In almost all cases contract clauses now set forth the reserved powers of management, agreed to by the Union" (Page 155); the investigations of the National Industrial Conference Board have shown that such cases are not in the majority. However, time may prove the author finally correct.

This is an especially good book for students of industrial relations to study, not just read, but to discuss and weigh.

J. E. WALTERS

(Mr. Walters is Professor of Management and Industrial Relations at the Amos Tuck School of Business Administration at Dartmouth College.)

More on the Interview

The Psychology of the Interview (Third Edition), by R. C. OLDFIELD. 154 pages. London, 1947: Methuen (distributed by the Sherwood Press, Pacoima, Calif.). $3.00.

ALTHOUGH listed as a third edition, this little book is identical with the first edition except for a short chapter of ten pages, entitled "Recent Views on the Interview." This chapter is intended to summarize the statements of a few psychologists who used interviews in personnel selection during the late war. These contributions deal with:

1. *What the interviewer should look for.* Dr. N. A. B. Wilson is reported as emphasizing the importance of keeping in mind the objectives of the interview, especially the acceptability of the candidate to the group within which he will have to work. Such an assessment is a complex psychological judgment arrived at by using the characteristics of a special social group as a concrete criterion, which is better than making a judgment in terms of abstract qualities.

2. *How to conduct the interview.*

3. *The use of the multiple interviews in vocational guidance, and their proper interrelation.*

4. *The necessity for, and methods of, training interviewers.*

5. *Psychological conditions affecting the reliability of the interviews.*

The new chapter is submitted as a summary of experience with the interview during the war, but there is no reference to studies in the United States or to the analysis of interviews by recordings.

The book is not a manual for interviewers. It warns against a naive objectivism that would routinize the interview. For one who is interested in a more critical and introspective analysis of the mental processes in an interview, there should be stimulation from this monograph written by a Cambridge scholar.

BRUCE V. MOORE

(Mr. Moore is Head of the Department of Psychology at The Pennsylvania State College.)

A Public Relations Tool

Company Annual Reports, by THOMAS H. SANDERS. 338 pages. Boston, 1949: Graduate School of Business Administration, Harvard University. $3.75.

THE past decade has witnessed the dynamic metamorphosis of the corporate annual report. From an impersonal statement of assets, liabilities, profits and losses it has emerged as a vivid human account, in words, pictures and graphs, of what a company has done good or bad during the year under review. Whereas in the past the annual report was read by a mere handful of persons trained in solving the inscrutable mysteries of dry-as-dust financial reporting, today it is read by stockholders, employees, labor union representatives, students, civic leaders, teachers and a host of others. It has become a public relations tool of importance, so recognized and used by management.

These and many other interesting facts are brought out, classified, analyzed and evaluated by Professor Sanders in his research study. His treatment of the problems of the changing position of the annual report shows not only the viewpoint of a student and teacher of accounting but also that of an experienced businessman. The factual data he has gathered through interviews and questionnaires covering a

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